

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Lowe's Companies, Inc. and subsidiaries (the "Company") as of January 29, 2016 and January 30, 2015, and the related consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows for each of the three fiscal years in the period ended January 29, 2016. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company at January 29, 2016 and January 30, 2015, and the results of its operations and its cash flows for each of the three fiscal years in the period ended January 29, 2016, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 29, 2016, based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 28, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina
 March 28, 2016

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Lowe's Companies, Inc. and subsidiaries (the "Company") as of January 29, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 29, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the fiscal year ended January 29, 2016 of the Company and our report dated March 28, 2016 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina
 March 28, 2016

Lowe's Companies, Inc.
Consolidated Statements of Earnings
(In millions, except per share and percentage data)

Fiscal years ended on	January 29, 2016	% Sales	January 30, 2015	% Sales	January 31, 2014	% Sales
Net sales	\$ 59,074	100.00%	\$ 56,223	100.00%	\$ 53,417	100.00%
Cost of sales	38,504	65.18	36,665	65.21	34,941	65.41
Gross margin	20,570	34.82	19,558	34.79	18,476	34.59
Expenses:						
Selling, general and administrative	14,115	23.90	13,281	23.62	12,865	24.08
Depreciation	1,484	2.51	1,485	2.64	1,462	2.74
Interest - net	552	0.93	516	0.92	476	0.89
Total expenses	16,151	27.34	15,282	27.18	14,803	27.71
Pre-tax earnings	4,419	7.48	4,276	7.61	3,673	6.88
Income tax provision	1,873	3.17	1,578	2.81	1,387	2.60
Net earnings	\$ 2,546	4.31%	\$ 2,698	4.80%	\$ 2,286	4.28%
Basic earnings per common share	\$ 2.73		\$ 2.71		\$ 2.14	
Diluted earnings per common share	\$ 2.73		\$ 2.71		\$ 2.14	
Cash dividends per share	\$ 1.07		\$ 0.87		\$ 0.70	

Lowe's Companies, Inc.
Consolidated Statements of Comprehensive Income
(In millions, except percentage data)

Fiscal years ended on	January 29, 2016	% Sales	January 30, 2015	% Sales	January 31, 2014	% Sales
Net earnings	\$ 2,546	4.31%	\$ 2,698	4.80%	\$ 2,286	4.28%
Foreign currency translation adjustments - net of tax	(291)	(0.49)	(86)	(0.15)	(68)	(0.13)
Net unrealized investment losses - net of tax	—	—	—	—	(1)	—
Other comprehensive loss	(291)	(0.49)	(86)	(0.15)	(69)	(0.13)
Comprehensive income	\$ 2,255	3.82%	\$ 2,612	4.65%	\$ 2,217	4.15%

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc.
Consolidated Balance Sheets

(In millions, except par value and percentage data)

	January 29, 2016	% Total	January 30, 2015	% Total
Assets				
Current assets:				
Cash and cash equivalents	\$ 405	1.3 %	\$ 466	1.5 %
Short-term investments	307	1.0	125	0.4
Merchandise inventory - net	9,458	30.3	8,911	28.1
Other current assets	391	1.3	349	1.1
Total current assets	10,561	33.9	9,851	31.1
Property, less accumulated depreciation	19,577	62.6	20,034	63.2
Long-term investments	222	0.7	354	1.1
Deferred income taxes - net	241	0.8	133	0.4
Other assets	665	2.0	1,349	4.2
Total assets	\$ 31,266	100.0%	\$ 31,721	100.0%
Liabilities and shareholders' equity				
Current liabilities:				
Short-term borrowings	\$ 43	0.1 %	\$ —	— %
Current maturities of long-term debt	1,061	3.4	552	1.7
Accounts payable	5,633	18.0	5,124	16.2
Accrued compensation and employee benefits	820	2.6	773	2.4
Deferred revenue	1,078	3.4	979	3.1
Other current liabilities	1,857	6.1	1,920	6.1
Total current liabilities	10,492	33.6	9,348	29.5
Long-term debt, excluding current maturities	11,545	36.9	10,806	34.1
Deferred revenue - extended protection plans	729	2.3	730	2.3
Other liabilities	846	2.7	869	2.7
Total liabilities	23,612	75.5	21,753	68.6
Commitments and contingencies				
Shareholders' equity:				
Preferred stock - \$5 par value, none issued	—	—	—	—
Common stock - \$.50 par value;				
Shares issued and outstanding				
January 29, 2016	910			
January 30, 2015	960	455	1.5	480
Capital in excess of par value	—	—	—	—
Retained earnings	7,593	24.3	9,591	30.2
Accumulated other comprehensive loss	(394)	(1.3)	(103)	(0.3)
Total shareholders' equity	7,654	24.5	9,968	31.4
Total liabilities and shareholders' equity	\$ 31,266	100.0%	\$ 31,721	100.0%

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc.
Consolidated Statements of Shareholders' Equity
(In millions)

	<u>Common Stock</u>		<u>Capital in</u>	<u>Retained</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Excess</u>	<u>Earnings</u>	<u>Other</u>	<u>Shareholders'</u>
			<u>of Par Value</u>		<u>Comprehensive</u>	<u>Equity</u>
					<u>Income/(Loss)</u>	
Balance February 1, 2013	1,110	\$ 555	\$ 26	\$ 13,224	\$ 52	\$ 13,857
Comprehensive income:						
Net earnings				2,286		
Other comprehensive loss					(69)	
Total comprehensive income						2,217
Tax effect of non-qualified stock options exercised and restricted stock vested			25			25
Cash dividends declared, \$0.70 per share				(741)		(741)
Share-based payment expense			102			102
Repurchase of common stock	(88)	(44)	(312)	(3,414)		(3,770)
Issuance of common stock under share-based payment plans	8	4	159			163
Balance January 31, 2014	1,030	\$ 515	\$ —	\$ 11,355	\$ (17)	\$ 11,853
Comprehensive income:						
Net earnings				2,698		
Other comprehensive loss					(86)	
Total comprehensive income						2,612
Tax effect of non-qualified stock options exercised and restricted stock vested			41			41
Cash dividends declared, \$0.87 per share				(858)		(858)
Share-based payment expense			111			111
Repurchase of common stock	(75)	(37)	(286)	(3,604)		(3,927)
Issuance of common stock under share-based payment plans	5	2	134			136
Balance January 30, 2015	960	\$ 480	\$ —	\$ 9,591	\$ (103)	\$ 9,968
Comprehensive income:						
Net earnings				2,546		
Other comprehensive loss					(291)	
Total comprehensive income						2,255
Tax effect of non-qualified stock options exercised and restricted stock vested			61			61
Cash dividends declared, \$1.07 per share				(991)		(991)
Share-based payment expense			112			112
Repurchase of common stock	(54)	(27)	(298)	(3,553)		(3,878)
Issuance of common stock under share-based payment plans	4	2	125			127
Balance January 29, 2016	910	\$ 455	\$ —	\$ 7,593	\$ (394)	\$ 7,654

See accompanying notes to consolidated financial statements.

Lowe's Companies, Inc.
Consolidated Statements of Cash Flows
(In millions)

Fiscal years ended on	January 29, 2016	January 30, 2015	January 31, 2014
Cash flows from operating activities:			
Net earnings	\$ 2,546	\$ 2,698	\$ 2,286
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	1,587	1,586	1,562
Deferred income taxes	(68)	(124)	(162)
Loss on property and other assets – net	33	25	64
Loss on equity method investments	591	57	52
Share-based payment expense	117	119	100
Changes in operating assets and liabilities:			
Merchandise inventory – net	(582)	170	(396)
Other operating assets	(34)	83	(5)
Accounts payable	524	127	291
Other operating liabilities	70	188	319
Net cash provided by operating activities	4,784	4,929	4,111
Cash flows from investing activities:			
Purchases of investments	(934)	(820)	(759)
Proceeds from sale/maturity of investments	884	805	709
Capital expenditures	(1,197)	(880)	(940)
Contributions to equity method investments – net	(125)	(241)	(173)
Proceeds from sale of property and other long-term assets	57	52	75
Acquisition of business - net	—	—	(203)
Other – net	(28)	(4)	5
Net cash used in investing activities	(1,343)	(1,088)	(1,286)
Cash flows from financing activities:			
Net change in short-term borrowings	43	(386)	386
Net proceeds from issuance of long-term debt	1,718	1,239	985
Repayment of long-term debt	(552)	(48)	(47)
Proceeds from issuance of common stock under share-based payment plans	125	137	165
Cash dividend payments	(957)	(822)	(733)
Repurchase of common stock	(3,925)	(3,905)	(3,710)
Other – net	55	24	(15)
Net cash used in financing activities	(3,493)	(3,761)	(2,969)
Effect of exchange rate changes on cash	(9)	(5)	(6)
Net increase/(decrease) in cash and cash equivalents	(61)	75	(150)
Cash and cash equivalents, beginning of year	466	391	541
Cash and cash equivalents, end of year	\$ 405	\$ 466	\$ 391

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED JANUARY 29, 2016, JANUARY 30, 2015 AND JANUARY 31, 2014

NOTE 1: Summary of Significant Accounting Policies

Lowe's Companies, Inc. and subsidiaries (the Company) is the world's second-largest home improvement retailer and operated 1,857 stores in the United States, Canada, and Mexico at January 29, 2016. Below are those accounting policies considered by the Company to be significant.

Fiscal Year - The Company's fiscal year ends on the Friday nearest the end of January. Each of the fiscal years presented contained 52 weeks. All references herein for the years 2015, 2014, and 2013 represent the fiscal years ended January 29, 2016, January 30, 2015, and January 31, 2014, respectively.

Principles of Consolidation - The consolidated financial statements include the accounts of the Company and its wholly-owned or controlled operating subsidiaries. All intercompany accounts and transactions have been eliminated.

Foreign Currency - The functional currencies of the Company's international subsidiaries are generally the local currencies of the countries in which the subsidiaries are located. Foreign currency denominated assets and liabilities are translated into U.S. dollars using the exchange rates in effect at the consolidated balance sheet date. Results of operations and cash flows are translated using the average exchange rates throughout the period. The effect of exchange rate fluctuations on translation of assets and liabilities is included as a component of shareholders' equity in accumulated other comprehensive loss. Gains and losses from foreign currency transactions, which are included in selling, general and administrative (SG&A) expense, have not been significant.

Use of Estimates - The preparation of the Company's financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosures of contingent assets and liabilities. The Company bases these estimates on historical results and various other assumptions believed to be reasonable, all of which form the basis for making estimates concerning the carrying values of assets and liabilities that are not readily available from other sources. Actual results may differ from these estimates.

Cash and Cash Equivalents - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less when purchased. Cash and cash equivalents are carried at amortized cost on the consolidated balance sheets. The majority of payments due from financial institutions for the settlement of credit card and debit card transactions process within two business days and are, therefore, classified as cash and cash equivalents.

Investments - As of January 29, 2016, investments consisted primarily of money market funds, municipal obligations, certificates of deposit, and municipal floating rate obligations, all of which are classified as available-for-sale. Available-for-sale securities are recorded at fair value, and unrealized gains and losses are recorded, net of tax, as a component of accumulated other comprehensive income. Gross unrealized gains and losses were insignificant at January 29, 2016 and January 30, 2015.

The proceeds from sales of available-for-sale securities were \$394 million, \$283 million, and \$276 million for 2015, 2014, and 2013, respectively. Gross realized gains and losses on the sale of available-for-sale securities were not significant for any of the periods presented.

Investments with a stated maturity date of one year or less from the balance sheet date or that are expected to be used in current operations are classified as short-term investments. All other investments are classified as long-term. Investments classified as long-term at January 29, 2016, will mature in one to 34 years, based on stated maturity dates.

The Company classifies as investments restricted balances primarily pledged as collateral for the Company's extended protection plan program. Restricted balances included in short-term investments were \$234 million at January 29, 2016, and \$99 million at January 30, 2015. Restricted balances included in long-term investments were \$202 million at January 29, 2016, and \$305 million at January 30, 2015.

Merchandise Inventory - Inventory is stated at the lower of cost or market using the first-in, first-out method of inventory accounting. The cost of inventory also includes certain costs associated with the preparation of inventory for resale, including distribution center costs, and is net of vendor funds.

The Company records an inventory reserve for the anticipated loss associated with selling inventories below cost. This reserve is based on management's current knowledge with respect to inventory levels, sales trends, and historical experience. Management does not believe the Company's merchandise inventories are subject to significant risk of obsolescence in the near term, and management has the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns could result in the need for additional reserves. The Company also records an inventory reserve for the estimated shrinkage between physical inventories. This reserve is based primarily on actual shrink results from previous physical inventories. Changes in the estimated shrink reserve are made based on the timing and results of physical inventories.

The Company receives funds from vendors in the normal course of business, principally as a result of purchase volumes, sales, early payments, or promotions of vendors' products. Generally, these vendor funds do not represent the reimbursement of specific, incremental, and identifiable costs incurred by the Company to sell the vendor's product. Therefore, the Company treats these funds as a reduction in the cost of inventory as the amounts are accrued, and are recognized as a reduction of cost of sales when the inventory is sold. Funds that are determined to be reimbursements of specific, incremental, and identifiable costs incurred to sell vendors' products are recorded as an offset to the related expense. The Company develops accrual rates for vendor funds based on the provisions of the agreements in place. Due to the complexity and diversity of the individual vendor agreements, the Company performs analyses and reviews historical trends throughout the year and confirms actual amounts with select vendors to ensure the amounts earned are appropriately recorded. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected annual purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met.

Derivative Financial Instruments - The Company occasionally utilizes derivative financial instruments to manage certain business risks. However, the amounts were not material to the Company's consolidated financial statements in any of the years presented. The Company does not use derivative financial instruments for trading purposes.

Credit Programs - The majority of the Company's accounts receivable arises from sales of goods and services to commercial business customers. The Company has an agreement with Synchrony Bank (Synchrony), formerly GE Capital Retail, under which Synchrony purchases at face value commercial business accounts receivable originated by the Company and services these accounts. This agreement expires in December 2023, unless terminated sooner by the parties. The Company primarily accounts for these transfers as sales of the accounts receivable. When the Company transfers its commercial business accounts receivable, it retains certain interests in those receivables, including the funding of a loss reserve and its obligation related to Synchrony's ongoing servicing of the receivables sold. Any gain or loss on the sale is determined based on the previous carrying amounts of the transferred assets allocated at fair value between the receivables sold and the interests retained. Fair value is based on the present value of expected future cash flows, taking into account the key assumptions of anticipated credit losses, payment rates, late fee rates, Synchrony's servicing costs, and the discount rate commensurate with the uncertainty involved. Due to the short-term nature of the receivables sold, changes to the key assumptions would not materially impact the recorded gain or loss on the sales of receivables or the fair value of the retained interests in the receivables.

Total commercial business accounts receivable sold to Synchrony were \$2.6 billion in 2015, \$2.4 billion in 2014, and \$2.2 billion in 2013. The Company recognized losses of \$36 million in 2015, \$38 million in 2014, and \$38 million in 2013 on these receivable sales as SG&A expense, which primarily relates to the fair value of obligations related to servicing costs that are remitted to Synchrony monthly. At January 29, 2016 and January 30, 2015, the fair value of the retained interests was determined based on the present value of expected future cash flows and was insignificant.

Sales generated through the Company's proprietary credit cards are not reflected in receivables. Under an agreement with Synchrony, credit is extended directly to customers by Synchrony. All credit program-related services are performed and controlled directly by Synchrony. The Company has the option, but no obligation, to purchase the receivables at the end of the agreement in December 2023. Tender costs, including amounts associated with accepting the Company's proprietary credit cards, are included in SG&A expense in the consolidated statements of earnings.

The total portfolio of receivables held by Synchrony, including both receivables originated by Synchrony from the Company's proprietary credit cards and commercial business accounts receivable originated by the Company and sold to Synchrony, approximated \$8.8 billion at January 29, 2016, and \$7.9 billion at January 30, 2015.

Property and Depreciation - Property is recorded at cost. Costs associated with major additions are capitalized and depreciated. Capital assets are expected to yield future benefits and have original useful lives which exceed one year. The total cost of a capital asset generally includes all applicable sales taxes, delivery costs, installation costs, and other appropriate costs incurred by the Company, including interest in the case of self-constructed assets. Upon disposal, the cost of properties and

related accumulated depreciation is removed from the accounts, with gains and losses reflected in SG&A expense in the consolidated statements of earnings.

Property consists of land, buildings and building improvements, equipment, and construction in progress. Buildings and building improvements includes owned buildings, as well as buildings under capital lease and leasehold improvements. Equipment primarily includes store racking and displays, computer hardware and software, forklifts, vehicles, and other store equipment.

Depreciation is provided over the estimated useful lives of the depreciable assets. Assets are depreciated using the straight-line method. Leasehold improvements and assets under capital lease are depreciated over the shorter of their estimated useful lives or the term of the related lease, which may include one or more option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably assured. During the term of a lease, if leasehold improvements are placed in service significantly after the inception of the lease, the Company depreciates these leasehold improvements over the shorter of the useful life of the leasehold assets or a term that includes lease renewal periods deemed to be reasonably assured at the time the leasehold improvements are placed into service. The amortization of these assets is included in depreciation expense in the consolidated financial statements.

Long-Lived Asset Impairment/Exit Activities - The carrying amounts of long-lived assets are reviewed whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. A potential impairment has occurred for long-lived assets held-for-use if projected future undiscounted cash flows expected to result from the use and eventual disposition of the assets are less than the carrying amounts of the assets. An impairment loss is recorded for long-lived assets held-for-use when the carrying amount of the asset is not recoverable and exceeds its fair value.

Excess properties that are expected to be sold within the next 12 months and meet the other relevant held-for-sale criteria are classified as long-lived assets held-for-sale. Excess properties consist primarily of retail outparcels and property associated with relocated or closed locations. An impairment loss is recorded for long-lived assets held-for-sale when the carrying amount of the asset exceeds its fair value less cost to sell. A long-lived asset is not depreciated while it is classified as held-for-sale.

For long-lived assets to be abandoned, the Company considers the asset to be disposed of when it ceases to be used. Until it ceases to be used, the Company continues to classify the asset as held-for-use and tests for potential impairment accordingly. If the Company commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, its depreciable life is re-evaluated.

The Company recorded long-lived asset impairment losses of \$10 million during 2015, including \$8 million for operating locations and \$2 million for excess properties classified as held-for-use. The Company recorded impairment losses of \$28 million during 2014, including \$26 million for operating locations and \$2 million for excess properties classified as held-for-use. The Company recorded long-lived asset impairment of \$46 million during 2013, including \$26 million for operating locations, \$17 million for excess properties classified as held-for-use, and \$3 million, including costs to sell, for excess properties classified as held-for-sale. Impairment losses are included in SG&A expense in the consolidated statements of earnings. Fair value measurements associated with long-lived asset impairments are further described in Note 2 to the consolidated financial statements.

The net carrying amount of excess properties that do not meet the held-for-sale criteria is included in other assets (noncurrent) on the consolidated balance sheets and totaled \$131 million and \$152 million at January 29, 2016 and January 30, 2015, respectively.

When locations under operating leases are closed, a liability is recognized for the fair value of future contractual obligations, including future minimum lease payments, property taxes, utilities, common area maintenance, and other ongoing expenses, net of estimated sublease income and other recoverable items. When the Company commits to an exit plan and communicates that plan to affected employees, a liability is recognized in connection with one-time employee termination benefits. Subsequent changes to the liabilities, including a change resulting from a revision to either the timing or the amount of estimated cash flows, are recognized in the period of change. Expenses associated with exit activities are included in SG&A expense in the consolidated statement of earnings.

Equity Method Investments - The Company's investments in certain unconsolidated entities are accounted for under the equity method. The balance of these investments is included in other assets (noncurrent) in the accompanying consolidated balance sheets. The balance is increased to reflect the Company's capital contributions and equity in earnings of the investees. The balance is decreased for its equity in losses of the investees, for distributions received that are not in excess of

the carrying amount of the investments, and for any other than temporary impairment losses recognized. The Company's equity in earnings and losses of the investees and other than temporary impairment losses are included in SG&A expense.

Equity method investments are evaluated for impairment whenever events or changes in circumstances indicate that a decline in value has occurred that is other than temporary. Evidence considered in this evaluation includes, but would not necessarily be limited to, the financial condition and near-term prospects of the investee, recent operating trends and forecasted performance of the investee, market conditions in the geographic area or industry in which the investee operates and the Company's strategic plans for holding the investment in relation to the period of time expected for an anticipated recovery of its carrying value. Investments that are determined to have a decline in value deemed to be other than temporary are written down to estimated fair value.

In 2015, the Company decided to exit the Australian joint venture investment with Woolworths Limited (Woolworths) and recorded a \$530 million impairment of its equity method investment due to a determination that there was a decrease in value that was other than temporary (see Note 2 to the consolidated financial statements for further discussion). Exclusive of this impairment charge recognized in the current year, losses on equity method investments have been immaterial.

Leases - For lease agreements that provide for escalating rent payments or free-rent occupancy periods, the Company recognizes rent expense on a straight-line basis over the non-cancellable lease term and option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease, to be reasonably assured. The lease term commences on the date that the Company takes possession of or controls the physical use of the property. Deferred rent is included in other liabilities (noncurrent) on the consolidated balance sheets.

When the Company renegotiates and amends a lease to extend the non-cancellable lease term prior to the date at which it would have been required to exercise or decline a term extension option, the amendment is treated as a new lease. The new lease begins on the date the lease amendment is entered into and ends on the last date of the non-cancellable lease term, as adjusted to include any option renewal periods where failure to exercise such options would result in an economic penalty in such amount that renewal appears, at the inception of the lease amendment, to be reasonably assured. The new lease is classified as operating or capital under the authoritative guidance through use of assumptions regarding residual value, economic life, incremental borrowing rate, and fair value of the leased asset(s) as of the date of the amendment.

Accounts Payable - The Company has an agreement with a third party to provide an accounts payable tracking system which facilitates participating suppliers' ability to finance payment obligations from the Company with designated third-party financial institutions. Participating suppliers may, at their sole discretion, make offers to finance one or more payment obligations of the Company prior to their scheduled due dates at a discounted price to participating financial institutions. The Company's goal in entering into this arrangement is to capture overall supply chain savings, in the form of pricing, payment terms, or vendor funding, created by facilitating suppliers' ability to finance payment obligations at more favorable discount rates, while providing them with greater working capital flexibility.

The Company's obligations to its suppliers, including amounts due and scheduled payment dates, are not impacted by suppliers' decisions to finance amounts under this arrangement. However, the Company's right to offset balances due from suppliers against payment obligations is restricted by this arrangement for those payment obligations that have been financed by suppliers. As of January 29, 2016 and January 30, 2015, \$1.3 billion and \$1.0 billion, respectively, of the Company's outstanding payment obligations had been placed on the accounts payable tracking system, and participating suppliers had financed \$921 million and \$724 million, respectively, of those payment obligations to participating financial institutions.

Other Current Liabilities - Other current liabilities on the consolidated balance sheets consist of:

(In millions)	January 29, 2016	January 30, 2015
Self-insurance liabilities	\$ 343	\$ 346
Accrued dividends	255	222
Accrued interest	179	165
Sales tax liabilities	140	131
Accrued property taxes	111	124
Other	829	932
Total	\$ 1,857	\$ 1,920

Self-Insurance - The Company is self-insured for certain losses relating to workers' compensation, automobile, property, and general and product liability claims. The Company has insurance coverage to limit the exposure arising from these claims. The Company is also self-insured for certain losses relating to extended protection plan and medical and dental claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon management's estimates of the discounted ultimate cost for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. Although management believes it has the ability to reasonably estimate losses related to claims, it is possible that actual results could differ from recorded self-insurance liabilities. The total self-insurance liability, including the current and non-current portions, was \$883 million and \$905 million at January 29, 2016, and January 30, 2015, respectively.

The Company provides surety bonds issued by insurance companies to secure payment of workers' compensation liabilities as required in certain states where the Company is self-insured. Outstanding surety bonds relating to self-insurance were \$240 million and \$234 million at January 29, 2016, and January 30, 2015, respectively.

Income Taxes - The Company establishes deferred income tax assets and liabilities for temporary differences between the tax and financial accounting bases of assets and liabilities. The tax effects of such differences are reflected in the consolidated balance sheets at the enacted tax rates expected to be in effect when the differences reverse. A valuation allowance is recorded to reduce the carrying amount of deferred tax assets if it is more likely than not that all or a portion of the asset will not be realized. The tax balances and income tax expense recognized by the Company are based on management's interpretation of the tax statutes of multiple jurisdictions.

The Company establishes a liability for tax positions for which there is uncertainty as to whether or not the position will be ultimately sustained. The Company includes interest related to tax issues as part of net interest on the consolidated financial statements. The Company records any applicable penalties related to tax issues within the income tax provision.

Shareholders' Equity - The Company has a share repurchase program that is executed through purchases made from time to time either in the open market or through private market transactions. Shares purchased under the repurchase program are retired and returned to authorized and unissued status. Any excess of cost over par value is charged to additional paid-in capital to the extent that a balance is present. Once additional paid-in capital is fully depleted, remaining excess of cost over par value is charged to retained earnings.

Revenue Recognition - The Company recognizes revenues, net of sales tax, when sales transactions occur and customers take possession of the merchandise. A provision for anticipated merchandise returns is provided through a reduction of sales and cost of sales in the period that the related sales are recorded. Revenues from product installation services are recognized when the installation is completed. Deferred revenues associated with amounts received for which customers have not yet taken possession of merchandise or for which installation has not yet been completed were \$619 million and \$545 million at January 29, 2016, and January 30, 2015, respectively.

Revenues from stored-value cards, which include gift cards and returned merchandise credits, are deferred and recognized when the cards are redeemed. The liability associated with outstanding stored-value cards was \$459 million and \$434 million at January 29, 2016, and January 30, 2015, respectively, and these amounts are included in deferred revenue on the consolidated balance sheets. The Company recognizes income from unredeemed stored-value cards at the point at which redemption becomes remote. The Company's stored-value cards have no expiration date or dormancy fees. Therefore, to determine when redemption is remote, the Company analyzes an aging of the unredeemed cards based on the date of last stored-value card use. The amount of revenue recognized from unredeemed stored-value cards for which redemption was deemed remote was not significant for 2015, 2014, and 2013.

Extended Protection Plans - The Company sells separately-priced extended protection plan contracts under a Lowe's-branded program for which the Company is ultimately self-insured. The Company recognizes revenue from extended protection plan sales on a straight-line basis over the respective contract term. Extended protection plan contract terms primarily range from one to four years from the date of purchase or the end of the manufacturer's warranty, as applicable. Changes in deferred revenue for extended protection plan contracts are summarized as follows:

(In millions)		2015		2014		2013
Deferred revenue - extended protection plans, beginning of year	\$	730	\$	730	\$	715
Additions to deferred revenue		350		318		294
Deferred revenue recognized		(351)		(318)		(279)
Deferred revenue - extended protection plans, end of year	\$	729	\$	730	\$	730

Incremental direct acquisition costs associated with the sale of extended protection plans are also deferred and recognized as expense on a straight-line basis over the respective contract term. Deferred costs associated with extended protection plan contracts were \$20 million and \$30 million at January 29, 2016, and January 30, 2015, respectively. The Company's extended protection plan deferred costs are included in other assets (noncurrent) on the consolidated balance sheets. All other costs, such as costs of services performed under the contract, general and administrative expenses, and advertising expenses are expensed as incurred.

The liability for extended protection plan claims incurred is included in other current liabilities on the consolidated balance sheets and was not material in any of the years presented. Expenses for claims are recognized when incurred and totaled \$127 million, \$123 million, and \$114 million for 2015, 2014, and 2013, respectively.

Cost of Sales and Selling, General and Administrative Expenses - The following lists the primary costs classified in each major expense category:

<u>Cost of Sales</u>	<u>Selling, General and Administrative</u>
<ul style="list-style-type: none"> ■ Total cost of products sold, including: <ul style="list-style-type: none"> - Purchase costs, net of vendor funds; - Freight expenses associated with moving merchandise inventories from vendors to retail stores; - Costs associated with operating the Company's distribution network, including payroll and benefit costs and occupancy costs; ■ Costs of installation services provided; ■ Costs associated with delivery of products directly from vendors to customers by third parties; ■ Costs associated with inventory shrinkage and obsolescence. ■ Costs of services performed under the extended protection plan. 	<ul style="list-style-type: none"> ■ Payroll and benefit costs for retail and corporate employees; ■ Occupancy costs of retail and corporate facilities; ■ Advertising; ■ Costs associated with delivery of products from stores and distribution centers to customers; ■ Third-party, in-store service costs; ■ Tender costs, including bank charges, costs associated with credit card interchange fees and amounts associated with accepting the Company's proprietary credit cards; ■ Costs associated with self-insured plans, and premium costs for stop-loss coverage and fully insured plans; ■ Long-lived asset impairment losses and gains/losses on disposal of assets; ■ Other administrative costs, such as supplies, and travel and entertainment.

Advertising - Costs associated with advertising are charged to expense as incurred. Advertising expenses were \$769 million, \$819 million, and \$811 million in 2015, 2014, and 2013, respectively.

Shipping and Handling Costs - The Company includes shipping and handling costs relating to the delivery of products directly from vendors to customers by third parties in cost of sales. Shipping and handling costs, which include third-party delivery costs, salaries, and vehicle operations expenses relating to the delivery of products from stores and distribution centers to customers, are classified as SG&A expense. Shipping and handling costs included in SG&A expense were \$607 million, \$548 million and \$501 million in 2015, 2014, and 2013, respectively.

Store Opening Costs - Costs of opening new or relocated retail stores, which include payroll and supply costs incurred prior to store opening and grand opening advertising costs, are charged to expense as incurred.

Comprehensive Income - The Company reports comprehensive income in its consolidated statements of comprehensive income and consolidated statements of shareholders' equity. Comprehensive income represents changes in shareholders' equity from non-owner sources and is comprised of net earnings adjusted primarily for foreign currency translation adjustments. Net foreign currency translation losses, net of tax, classified in accumulated other comprehensive loss were \$394 million, \$103 million, and \$17 million at January 29, 2016, January 30, 2015, and January 31, 2014, respectively.

Segment Information - The Company's home improvement retail operations represent a single reportable segment. Key operating decisions are made at the Company level in order to maintain a consistent retail store presentation. The Company's home improvement retail stores sell similar products and services, use similar processes to sell those products and services, and sell their products and services to similar classes of customers. In addition, the Company's operations exhibit similar economic characteristics. The amounts of long-lived assets and net sales outside of the U.S. were not significant for any of the periods presented.

Recent Accounting Pronouncements - In November 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2015-17, *Balance Sheet Classification of Deferred Taxes*. The ASU requires entities to classify deferred tax liabilities and assets as noncurrent in a classified statement of financial position. This ASU is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted for all entities as of the beginning of an interim or annual reporting period. The Company elected to early adopt this accounting update as of January 29, 2016, and applied it retrospectively to prior periods. The adoption of the ASU resulted in a reclassification of \$230 million of current deferred tax assets and \$97 million of noncurrent deferred tax liabilities to noncurrent deferred tax assets in the Company's consolidated balance sheet as of January 30, 2015. The adoption of this guidance did not have any impact on the Company's consolidated statements of earnings, comprehensive income, shareholders' equity, or cash flows.

In April 2015, the FASB issued ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The ASU requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. This ASU is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years, with early adoption permitted. The Company elected to early adopt this accounting update as of January 29, 2016, and applied it retrospectively to prior periods. The adoption of the ASU resulted in a reclassification of debt issuance costs of \$9 million from other assets to long-term debt, excluding current maturities in the Company's consolidated balance sheet as of January 30, 2015. The adoption of this guidance did not have any impact on the Company's consolidated statements of earnings, comprehensive income, shareholders' equity, or cash flows.

Effective January 31, 2015, the Company adopted ASU 2014-08, *Reporting Discontinued Operations and Disclosures of Components of an Entity*. The ASU amends the definition of a discontinued operation and also provides new disclosure requirements for disposals meeting the definition, and for those that do not meet the definition, of a discontinued operation. Under the new guidance, a discontinued operation may include a component or a group of components of an entity, or a business or nonprofit activity that has been disposed of or is classified as held for sale, and represents a strategic shift that has or will have a major effect on an entity's operations and financial results. The ASU also expands the scope to include the disposals of equity method investments and acquired businesses held for sale. The adoption of the guidance by the Company did not have a material impact on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for those leases previously classified as operating leases. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. This ASU is effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years, with early adoption permitted. The Company is currently evaluating the impact of adopting this ASU on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, *Recognition and Measurement of Financial Assets and Liabilities*. The ASU requires, among other things, that entities measure equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) at fair value, with changes in fair value recognized in net income. Under this ASU, entities will no longer be able to recognize unrealized holding gains and losses on equity securities classified today as available-for-sale in other comprehensive income, and they will no longer be able to use the cost method of accounting for equity securities that do not have readily determinable fair values. The guidance for classifying and measuring investments in debt securities and loans is not impacted. ASU 2016-01 eliminates certain disclosure requirements related to financial instruments measured at amortized cost and adds disclosures related to the measurement categories of financial assets and financial liabilities. The guidance is effective for annual periods beginning after December 15, 2017. Early adoption is permitted for only certain portions of the ASU. The adoption of this guidance by the Company is not expected to have a material impact on its consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, *Simplifying the Measurement of Inventory*. The ASU requires entities using the first-in, first-out (FIFO) inventory costing method to subsequently value inventory at the lower of cost and net realizable value. The ASU defines net realizable value as the estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation. This ASU requires prospective application and is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years, with early adoption permitted. The adoption of this guidance by the Company is not expected to have a material impact on its consolidated financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The ASU is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of the ASU to fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2016. Companies may use either a full retrospective or a modified retrospective approach to adopt this ASU. The Company is currently evaluating the transition methods and the impact of the guidance, along with subsequent clarifying guidance, on its consolidated financial statements.

NOTE 2: Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The authoritative guidance for fair value measurements establishes a three-level hierarchy, which encourages an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of the hierarchy are defined as follows:

- Level 1 - inputs to the valuation techniques that are quoted prices in active markets for identical assets or liabilities
- Level 2 - inputs to the valuation techniques that are other than quoted prices but are observable for the assets or liabilities, either directly or indirectly
- Level 3 - inputs to the valuation techniques that are unobservable for the assets or liabilities

Assets and Liabilities that are Measured at Fair Value on a Recurring Basis

The Company's available-for-sale securities represented the only significant assets measured at fair value on a recurring basis for the years ended January 29, 2016 and January 30, 2015. The following table presents the Company's financial assets measured at fair value on a recurring basis. The fair values of these instruments approximated amortized costs.

(In millions)	Measurement Level	Fair Value Measurements at	
		January 29, 2016	January 30, 2015
Available-for-sale securities:			
Money market funds	Level 1	\$ 192	\$ 81
Certificates of deposit	Level 1	56	17
Municipal obligations	Level 2	38	21
Municipal floating rate obligations	Level 2	21	6
Total short-term investments		\$ 307	\$ 125
Available-for-sale securities:			
Municipal floating rate obligations	Level 2	\$ 212	\$ 348
Municipal obligations	Level 2	5	2
Certificates of deposit	Level 1	5	4
Total long-term investments		\$ 222	\$ 354

There were no transfers between Levels 1, 2 or 3 during any of the periods presented.

When available, quoted prices were used to determine fair value. When quoted prices in active markets were available, investments were classified within Level 1 of the fair value hierarchy. When quoted prices in active markets were not available, fair values were determined using pricing models, and the inputs to those pricing models were based on observable market inputs. The inputs to the pricing models were typically benchmark yields, reported trades, broker-dealer quotes, issuer spreads and benchmark securities, among others.

Assets and Liabilities that are Measured at Fair Value on a Nonrecurring Basis

For the years ended January 29, 2016, and January 30, 2015, the Company's only significant assets or liabilities measured at fair value on a nonrecurring basis subsequent to their initial recognition were certain long-lived assets and equity method investments.

Long-lived assets

The Company reviews the carrying amounts of long-lived assets whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. With input from retail store operations, the Company's accounting and finance personnel that organizationally report to the chief financial officer, assess the performance of retail stores quarterly against historical patterns and projections of future profitability for evidence of possible impairment. An impairment loss is recognized when the carrying amount of the asset (disposal) group is not recoverable and exceeds its fair value. The Company estimated the fair values of assets subject to long-lived asset impairment based on the Company's own judgments about the assumptions that market participants would use in pricing the assets and on observable market data, when available. The Company classified these fair value measurements as Level 3.

In the determination of impairment for operating locations, the Company determined the fair values of individual operating locations using an income approach, which required discounting projected future cash flows. When determining the stream of projected future cash flows associated with an individual operating location, management made assumptions, incorporating local market conditions and inputs from retail store operations, about key variables including the following unobservable inputs: sales growth rates, gross margin, controllable expenses, such as payroll and occupancy expense, and asset residual values. In order to calculate the present value of those future cash flows, the Company discounted cash flow estimates at a rate commensurate with the risk that selected market participants would assign to the cash flows. In general, the selected market participants represented a group of other retailers with a location footprint similar in size to the Company's.

During 2015, two operating locations experienced a triggering event and were determined to be impaired due to a decline in recent cash flow trends and an unfavorable sales outlook, resulting in an impairment loss of \$8 million. The discounted cash flow model used to estimate the fair value of the impaired operating locations assumed average annual sales growth rates ranging from 3.9% to 4.3% over the remaining life of the locations and applied a discount rate of approximately 6.3%.

In the determination of impairment for excess properties held-for-use and held-for-sale, which consisted of retail outparcels and property associated with relocated or closed locations, the fair values were determined using a market approach based on estimated selling prices. The Company determined the estimated selling prices by obtaining information from property brokers or appraisers in the specific markets being evaluated or negotiated non-binding offers to purchase. The information obtained from property brokers or appraisers included comparable sales of similar assets and assumptions about demand in the market for these assets.

During 2015, the Company incurred total impairment charges of \$2 million for six excess property locations. A 10% reduction in the estimated selling prices for these excess properties at the dates the locations were evaluated for impairment would have increased impairment losses by an insignificant amount.

Equity method investments

Equity method investments are evaluated for impairment whenever events or changes in circumstances indicate that a decline in value has occurred that is other than temporary. Evidence considered in this evaluation includes, but would not necessarily be limited to, the financial condition and near-term prospects of the investee, recent operating trends and forecasted performance of the investee, market conditions in the geographic area or industry in which the investee operates, and the Company's strategic plans for holding the investment in relation to the period of time expected for an anticipated recovery of its carrying value. Investments that are determined to have a decline in value deemed to be other than temporary are written down to estimated fair value.

In 2015, the Company decided to exit the Australian joint venture investment with Woolworths Limited (Woolworths) and recorded a \$530 million impairment of its equity method investment due to a determination that there was a decrease in value that was other than temporary. The Company owns a one-third share in the joint venture, Hydrox Holdings Pty Ltd., which operates Masters Home Improvement stores and Home Timber and Hardware Group's retail stores and wholesale distribution in Australia. As a result of the Company's decision to exit, Woolworths will be required to purchase the Company's one-third share in the joint venture at an agreed upon fair value as of January 18, 2016, the date on which notification of the Company's intent to exit was received by Woolworths. The process for the two parties agreeing on fair value is prescribed in the Joint Venture Agreement. Finalization of the purchase price for the Company's interest in the joint venture and completion of the sale is expected to occur in 2016. The \$530 million non-cash impairment charge was based on the Company's estimate of the

value of its portion of the overall joint venture fair value. This value was determined using an income approach based on expected discounted cash flows, and was validated for reasonableness by comparison to similar transaction multiples. The Company's equity method investment balance in the Australian joint venture is classified as Level 3 because the underlying estimate of value used unobservable inputs that were significant to the fair value measurements and required management judgment due to the absence of quoted market prices. The assumptions that most significantly affect the fair value determination include projected revenues and the discount rate. The discounted cash flow model used to estimate the fair value assumed a compound annual growth rate for sales of 6.2% over the 15-year forecast period, with a terminal year growth rate assumed of 3.0%, and applied a discount rate of approximately 10.7%.

The following table presents the Company's assets measured at estimated fair value on a nonrecurring basis and the resulting impairment losses included in earnings, excluding costs to sell for excess properties held-for-sale. Because these assets subject to impairment were not measured at fair value on a recurring basis, certain fair value measurements presented in the table may reflect values at earlier measurement dates and may no longer represent the fair values at January 29, 2016 and January 30, 2015.

Fair Value Measurements - Nonrecurring Basis

(In millions)	January 29, 2016		January 30, 2015	
	Fair Value Measurements	Impairment Losses	Fair Value Measurements	Impairment Losses
Assets-held-for-use:				
Operating locations	\$ 4	\$ (8)	\$ 9	\$ (26)
Excess properties	4	(2)	11	(2)
Other assets:				
Equity method investments	393	(530)	N/A	N/A
Total	\$ 401	\$ (540)	\$ 20	\$ (28)

Fair Value of Financial Instruments

The Company's financial instruments not measured at fair value on a recurring basis include cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, and long-term debt and are reflected in the financial statements at cost. With the exception of long-term debt, cost approximates fair value for these items due to their short-term nature. The fair values of the Company's unsecured notes were estimated using quoted market prices. The fair values of the Company's mortgage notes were estimated using discounted cash flow analyses, based on the future cash outflows associated with these arrangements and discounted using the applicable incremental borrowing rate.

Carrying amounts and the related estimated fair value of the Company's long-term debt, excluding capitalized lease obligations, are as follows:

(In millions)	January 29, 2016		January 30, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Unsecured notes (Level 1) ¹	\$ 12,073	\$ 13,292	\$ 10,850	\$ 12,739
Mortgage notes (Level 2)	7	8	16	17
Long-term debt (excluding capitalized lease obligations)	\$ 12,080	\$ 13,300	\$ 10,866	\$ 12,756

¹ Prior period balances have been retrospectively adjusted as a result of the Company's adoption of ASU 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The adoption of the accounting standard required reclassification of debt issuance costs from other assets to long-term debt.

NOTE 3: Property and Accumulated Depreciation

Property is summarized by major class in the following table:

(In millions)	Estimated Depreciable Lives, In Years	January 29, 2016	January 30, 2015
Cost:			
Land	N/A	\$ 7,086	\$ 7,040
Buildings and building improvements	5-40	17,451	17,247
Equipment	2-15	10,863	10,426
Construction in progress	N/A	513	730
Total cost		35,913	35,443
Accumulated depreciation		(16,336)	(15,409)
Property, less accumulated depreciation		\$ 19,577	\$ 20,034

Included in net property are assets under capital lease of \$617 million, less accumulated depreciation of \$400 million, at January 29, 2016, and \$744 million, less accumulated depreciation of \$494 million, at January 30, 2015. The related amortization expense for assets under capital lease is included in depreciation expense.

NOTE 4: Exit Activities

When locations under operating leases are closed, the Company recognizes a liability for the fair value of future contractual obligations, including future minimum lease payments, property taxes, utilities, common area maintenance and other ongoing expenses, net of estimated sublease income and other recoverable items. During 2015, the Company closed or relocated two locations subject to operating leases. In 2014, the Company did not close or relocate any locations subject to operating leases. In 2013, the Company relocated two locations subject to operating leases.

Subsequent changes to the liabilities, including changes resulting from revisions to either the timing or the amount of estimated cash flows, are recognized in the period of change. Changes to the accrual for exit activities for 2015, 2014, and 2013 are summarized as follows:

(In millions)	2015	2014	2013
Accrual for exit activities, balance at beginning of year	\$ 53	\$ 54	\$ 75
Additions to the accrual - net	34	14	11
Cash payments	(20)	(15)	(32)
Accrual for exit activities, balance at end of year	\$ 67	\$ 53	\$ 54

NOTE 5: Short-Term Borrowings and Lines of Credit

The Company has a \$1.75 billion unsecured revolving credit agreement (the 2014 Credit Facility) with a syndicate of banks that expires in August 2019. Subject to obtaining commitments from the lenders and satisfying other conditions specified in the 2014 Credit Facility, we may increase the aggregate availability by an additional \$500 million. The 2014 Credit Facility supports our commercial paper program and has a \$500 million letter of credit sublimit. Letters of credit issued pursuant to the facility reduce the amount available for borrowing under its terms. Borrowings made are unsecured and are priced at fixed rates based upon market conditions at the time of funding in accordance with the terms of the facility. The 2014 Credit Facility contains certain restrictive covenants, which include maintenance of an adjusted debt leverage ratio as defined by the credit agreement. The Company was in compliance with those covenants at January 29, 2016. As of January 29, 2016, there were \$43 million of outstanding borrowings under the commercial paper program with a weighted average interest rate of 0.60% and no outstanding borrowings or letters of credit under the 2014 Credit Facility. As of January 30, 2015, there were no outstanding borrowings under the Company's commercial paper program and no outstanding borrowings or letters of credit under the credit facility.

NOTE 6: Long-Term Debt

Debt Category (In millions)	Weighted-Average Interest Rate at January 29, 2016	January 29, 2016	January 30, 2015 ³
Secured debt:			
Mortgage notes due through fiscal 2027 ¹	6.32%	7 \$	16
Unsecured debt:			
Notes due through fiscal 2020	3.13%	2,969	3,217
Notes due fiscal 2021-2025	3.50%	3,464	2,720
Notes due fiscal 2026-2030	6.76%	813	813
Notes due fiscal 2031-2035	5.50%	494	494
Notes due fiscal 2036-2040 ²	6.16%	1,537	1,536
Notes due fiscal 2041-2045	4.67%	2,796	2,071
Capitalized lease obligations due through fiscal 2035		526	491
Total long-term debt		12,606	11,358
Less current maturities		(1,061)	(552)
Long-term debt, excluding current maturities		\$ 11,545	\$ 10,806

¹ Real properties with an aggregate book value of \$33 million were pledged as collateral at January 29, 2016, for secured debt.

² Amount includes \$100 million of notes issued in 1997 that may be put at the option of the holder on the 20th anniversary of the issue at par value. None of these notes are currently puttable.

³ In connection with the Company's adoption of ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, prior year debt balances have been retrospectively adjusted to include a direct deduction of unamortized debt issuance costs. Prior to the Company's adoption of ASU 2015-03, these unamortized debt issuance costs were included in other assets on the Company's consolidated balance sheets.

Debt maturities, exclusive of unamortized original issue discounts, unamortized debt issuance costs, and capitalized lease obligations, for the next five years and thereafter are as follows: 2016, \$1.0 billion; 2017, \$751 million; 2018, \$251 million; 2019, \$450 million; 2020, \$501 million; thereafter, \$9.2 billion.

The Company's unsecured notes are issued under indentures that have generally similar terms and, therefore, have been grouped by maturity date for presentation purposes in the table above. The notes contain certain restrictive covenants, none of which is expected to impact the Company's capital resources or liquidity. The Company was in compliance with all covenants of these agreements at January 29, 2016.

In September 2013, the Company issued \$1.0 billion of unsecured notes in two tranches: \$500 million of 3.875% notes maturing in September 2023 and \$500 million of 5.0% notes maturing in September 2043. The 2023 and 2043 notes were issued at discounts of approximately \$5 million and \$9 million, respectively. Interest on these notes is payable semiannually in arrears in March and September of each year until maturity, beginning in March 2014.

In September 2014, the Company issued \$1.25 billion of unsecured notes in three tranches: \$450 million of floating rate notes maturing in September 2019; \$450 million of 3.125% notes maturing in September 2024; and \$350 million of 4.25% notes maturing in September 2044. The 2019, 2024, and 2044 Notes were issued at discounts of approximately \$2 million, \$6 million, and \$4 million, respectively. The 2019 Notes will bear interest at a floating rate, reset quarterly, equal to the three-month LIBOR plus 0.420% (0.907% as of January 29, 2016). Interest on the 2019 Notes is payable quarterly in arrears in March, June, September, and December of each year until maturity, beginning in December 2014. Interest on the 2024 and 2044 Notes is payable semiannually in arrears in March and September of each year until maturity, beginning in March 2015.

In September 2015, the Company issued \$1.75 billion of unsecured notes in three tranches: \$250 million of floating rate notes maturing in September 2018; \$750 million of 3.375% notes maturing in September 2025; and \$750 million of 4.375% notes maturing in September 2045. The 2018, 2025, and 2045 Notes were issued at discounts of approximately \$1 million, \$8 million, and \$24 million, respectively. The 2018 Notes will bear interest at a floating rate, reset quarterly, equal to the three-month LIBOR plus 0.600% (1.102% as of January 29, 2016). Interest on the 2018 Notes is payable quarterly in arrears in

March, June, September, and December of each year until maturity, beginning in December 2015. Interest on the 2025 and 2045 Notes is payable semiannually in arrears in March and September of each year until maturity, beginning in March 2016.

The discounts associated with these issuances, which include the underwriting and issuance discounts, are recorded in long-term debt and are being amortized over the respective terms of the notes.

The indentures governing the notes issued in 2015, 2014, and 2013 contain a provision that allows the Company to redeem the notes at any time, in whole or in part, at specified redemption prices plus accrued interest to the date of redemption, with the exception of the 2019 Notes (issued in 2014) and the 2018 Notes (issued in 2015). We do not have the right to redeem the 2019 Notes or the 2018 Notes prior to maturity. The indentures also contain a provision that allows the holders of the notes to require the Company to repurchase all or any part of their notes if a change of control triggering event (as defined in the indentures) occurs. If elected under the change of control provisions, the repurchase of the notes will occur at a purchase price of 101% of the principal amount, plus accrued and unpaid interest, if any, on such notes to the date of purchase. The indentures governing the notes do not limit the aggregate principal amount of debt securities that the Company may issue and do not require the Company to maintain specified financial ratios or levels of net worth or liquidity.

NOTE 7: Shareholders' Equity

Authorized shares of preferred stock were 5.0 million (\$5 par value) at January 29, 2016, and January 30, 2015, none of which have been issued. The Board of Directors may issue the preferred stock (without action by shareholders) in one or more series, having such voting rights, dividend and liquidation preferences, and such conversion and other rights as may be designated by the Board of Directors at the time of issuance.

Authorized shares of common stock were 5.6 billion (\$.50 par value) at January 29, 2016, and January 30, 2015.

The Company has a share repurchase program that is executed through purchases made from time to time either in the open market or through private off-market transactions. Shares purchased under the repurchase program are retired and returned to authorized and unissued status. On January 31, 2014, the Company's Board of Directors authorized a \$5.0 billion share repurchase program with no expiration, which was announced on February 24, 2014. On March 20, 2015, the Company's Board of Directors authorized an additional \$5.0 billion under the repurchase program with no expiration, which was announced on the same day. As of January 29, 2016, the Company had \$3.6 billion remaining under the program.

During the year ended January 29, 2016, the Company entered into Accelerated Share Repurchase (ASR) agreements with third-party financial institutions to repurchase a total of 28.4 million shares of the Company's common stock for \$2.0 billion. At inception, the Company paid the financial institutions using cash on hand and took initial delivery of shares. Under the terms of the ASR agreements, upon settlement, the Company would either receive additional shares from the financial institution or be required to deliver additional shares or cash to the financial institution. The Company controlled its election to either deliver additional shares or cash to the financial institution and was subject to provisions which limited the number of shares the Company would be required to deliver.

The final number of shares received upon settlement of each ASR agreement was determined with reference to the volume-weighted average price of the Company's common stock over the term of the ASR agreement. The initial repurchase of shares under these agreements resulted in an immediate reduction of the outstanding shares used to calculate the weighted-average common shares outstanding for basic and diluted earnings per share.

These ASR agreements were accounted for as treasury stock transactions and forward stock purchase contracts. The par value of the shares received was recorded as a reduction to common stock with the remainder recorded as a reduction to capital in excess of par value and retained earnings. The forward stock purchase contracts were considered indexed to the Company's own stock and were classified as equity instruments.

During the year ended January 29, 2016, the Company also repurchased shares of its common stock through the open market totaling 25.2 million shares for a cost of \$1.8 billion.

The Company also withholds shares from employees to satisfy either the exercise price of stock options exercised or the statutory withholding tax liability resulting from the vesting of restricted stock awards and performance share units.

Shares repurchased for 2015 and 2014 were as follows:

(In millions)	2015		2014	
	Shares	Cost ¹	Shares	Cost ¹
Share repurchase program	53.6	\$ 3,811	73.8	\$ 3,880
Shares withheld from employees	0.9	67	0.9	47
Total share repurchases	54.5	\$ 3,878	74.7	\$ 3,927

¹ Reductions of \$3.6 billion were recorded to retained earnings, after capital in excess of par value was depleted, for both 2015 and 2014.

NOTE 8: Accounting for Share-Based Payments

Overview of Share-Based Payment Plans

The Company has a number of active and inactive equity incentive plans (the Incentive Plans) under which the Company has been authorized to grant share-based awards to key employees and non-employee directors. The Company also has an employee stock purchase plan (the ESPP) that allows employees to purchase Company shares at a discount through payroll deductions. All of these plans contain a nondiscretionary anti-dilution provision that is designed to equalize the value of an award as a result of any stock dividend, stock split, recapitalization, or any other similar equity restructuring.

A total of 199.0 million shares have been previously authorized for grant to key employees and non-employee directors under all of the Company's Incentive Plans, but only 80.0 million of those shares were authorized for grants of share-based awards under the Company's currently active Incentive Plans. In addition, a total of 70.0 million shares have been previously authorized for purchases by employees participating in the ESPP.

At January 29, 2016, there were 36.1 million shares remaining available for grants under the currently active Incentive Plans and 24.3 million shares remaining available for purchases under the ESPP.

The Company recognized share-based payment expense within SG&A expense in the consolidated statements of earnings of \$117 million, \$119 million, and \$100 million in 2015, 2014 and 2013 respectively. The total associated income tax benefit recognized was \$38 million, \$39 million and \$32 million in 2015, 2014 and 2013, respectively.

Total unrecognized share-based payment expense for all share-based payment plans was \$165 million at January 29, 2016, of which \$97 million will be recognized in 2016, \$49 million in 2017 and \$19 million thereafter. This results in these amounts being recognized over a weighted-average period of 1.9 years.

For all share-based payment awards, the expense recognized has been adjusted for estimated forfeitures where the requisite service is not expected to be provided. Estimated forfeiture rates are developed based on the Company's analysis of historical forfeiture data for homogeneous employee groups.

General terms and methods of valuation for the Company's share-based awards are as follows:

Stock Options

Stock options have terms of seven or 10 years, with one-third of each grant vesting each year for three years, and are assigned an exercise price equal to the closing market price of a share of the Company's common stock on the date of grant. Options are expensed on a straight-line basis over the grant vesting period, which is considered to be the requisite service period.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model. When determining expected volatility, the Company considers the historical volatility of the Company's stock price, as well as implied volatility. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant, based on the options' expected term. The expected term of the options is based on the Company's evaluation of option holders' exercise patterns and represents the period of time that options are expected to remain unexercised. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted average assumptions used in the Black-Scholes option-pricing model and weighted-average grant date fair value for options granted in 2015, 2014, and 2013 are as follows:

	2015	2014	2013
Weighted-average assumptions used:			
Expected volatility	31.3%	34.2%	34.2%
Dividend yield	1.69%	1.73%	1.45%
Risk-free interest rate	1.99%	2.26%	1.31%
Expected term, in years	7.00	7.00	7.39
Weighted-average grant date fair value	\$ 20.27	\$ 17.00	\$ 12.24

The total intrinsic value of options exercised, representing the difference between the exercise price and the market price on the date of exercise, was approximately \$68 million, \$62 million and \$48 million in 2015, 2014 and 2013, respectively.

Transactions related to stock options for the year ended January 29, 2016 are summarized as follows:

	Shares (In thousands)	Weighted- Average Exercise Price Per Share	Weighted- Average Remaining Term (In years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 30, 2015	6,311	\$ 35.98		
Granted	862	69.44		
Canceled, forfeited or expired	(215)	54.21		
Exercised	(1,527)	30.26		
Outstanding at January 29, 2016	5,431	\$ 42.18	6.04	\$ 160,105
Vested and expected to vest at January 29, 2016 ¹	5,357	\$ 41.91	6.00	\$ 159,387
Exercisable at January 29, 2016	3,200	\$ 32.88	4.28	\$ 124,067

¹ Includes outstanding vested options as well as outstanding nonvested options after a forfeiture rate is applied.

Restricted Stock Awards

Restricted stock awards are valued at the market price of a share of the Company's common stock on the date of grant. In general, these awards vest at the end of a three year period from the date of grant and are expensed on a straight-line basis over that period, which is considered to be the requisite service period. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted-average grant-date fair value per share of restricted stock awards granted was \$69.44, \$53.13 and \$41.78 in 2015, 2014, and 2013, respectively. The total fair value of restricted stock awards vesting was approximately \$144 million, \$114 million and \$98 million in 2015, 2014 and 2013, respectively.

Transactions related to restricted stock awards for the year ended January 29, 2016 are summarized as follows:

	Shares (In thousands)	Weighted- Average Grant- Date Fair Value Per Share
Nonvested at January 30, 2015	5,574	\$ 39.91
Granted	997	69.44
Vested	(1,959)	29.28
Canceled or forfeited	(401)	48.18
Nonvested at January 29, 2016	4,211	\$ 51.06

Deferred Stock Units

Deferred stock units are valued at the market price of a share of the Company's common stock on the date of grant. For non-employee Directors, these awards vest immediately and are expensed on the grant date. During 2015, 2014 and 2013, each non-employee Director was awarded a number of deferred stock units determined by dividing the annual award amount by the fair market value of a share of the Company's common stock on the award date and rounding up to the next 100 units. The annual award amount used to determine the number of deferred stock units granted to each Director was \$150,000 for 2015, 2014, and 2013. During 2015, 22,000 deferred stock units were granted and immediately vested for non-employee Directors. The weighted-average grant-date fair value per share of deferred stock units granted was \$69.98, \$47.08 and \$42.11 in 2015, 2014 and 2013, respectively. The total fair value of deferred stock units vested was \$1.5 million in 2015, 2014, and 2013. During 2015, 0.1 million of fully vested deferred stock units were released as a result of termination of service. At January 29, 2016, there were 0.4 million deferred stock units outstanding, all of which were vested.

Performance Share Units

The Company has issued two types of Performance Share Units - those based on the achievement of targeted Company return on non-cash average assets (RONCAA) and those based on targeted Company improvement in brand differentiation. Performance share units do not have dividend rights. In general, upon the achievement of a minimum threshold, 50% to 150% of these awards vest at the end of a three year service period from the date of grant based upon achievement of the performance goal specified in the performance share unit agreement.

Performance share units are expensed on a straight-line basis over the requisite service period, based on the probability of achieving the performance goal, with changes in expectations recognized as an adjustment to earnings in the period of the change. If the performance goal is not met, no compensation cost is recognized and any previously recognized compensation cost is reversed. The Company uses historical data to estimate the timing and amount of forfeitures.

RONCAA Awards

Performance share units issued based on the achievement of targeted RONCAA, which is considered a performance condition, are classified as equity awards and are valued at the market price of a share of the Company's common stock on the date of grant less the present value of dividends expected during the requisite service period. The weighted-average grant-date fair value per unit of performance share units classified as equity awards granted was \$71.52, \$47.05 and \$36.48 in 2015, 2014 and 2013, respectively. The total fair value of performance share units vested in 2015 was approximately \$25 million. No performance share units vested in 2014 or 2013.

Transactions related to performance share units classified as equity awards for the year ended January 29, 2016 are summarized as follows:

	Units (In thousands) ¹	Weighted- Average Grant- Date Fair Value Per Unit
Nonvested at January 30, 2015	957	\$ 37.00
Granted	257	71.52
Vested	(327)	26.66
Canceled or forfeited	(95)	49.77
Nonvested at January 29, 2016	792	\$ 50.93

¹ The number of units presented is based on achieving the targeted performance goals as defined in the performance share unit agreements. As of January 29, 2016, the maximum number of nonvested units that could vest under the provisions of the agreements was 1.2 million for the RONCAA awards.

Brand Differentiation Awards

Performance share units issued based on targeted Company improvement in brand differentiation, which is not considered a market, performance, or service related condition, are classified as liability awards and are measured at fair value at each reporting date. The awards are valued at the market price of a share of the Company's common stock at the end of each reporting period less the present value of dividends expected to be issued during the remaining requisite service period. No performance share units classified as liability awards were granted in 2015 or 2014. The weighted-average grant-date fair value per unit of performance share units classified as liability awards granted in 2013 was \$36.48. No performance share units vested in 2015, 2014, or 2013. The total liability for performance share units classified as liability awards at January 29, 2016 was \$13 million.

Transactions related to performance share units classified as liability awards for the year ended January 29, 2016 are summarized as follows:

	Units (In thousands) ¹	Weighted- Average Grant- Date Fair Value Per Unit
Nonvested at January 30, 2015	300	\$ 31.20
Canceled or forfeited	(173)	27.36
Nonvested at January 29, 2016	127	\$ 36.47

¹ The number of units presented is based on achieving the targeted performance goals as defined in the performance share unit agreements. As of January 29, 2016, the maximum number of nonvested units that could vest under the provisions of the agreements was 0.2 million units for the brand differentiation awards.

Restricted Stock Units

Restricted stock units do not have dividend rights and are valued at the market price of a share of the Company's common stock on the date of grant less the present value of dividends expected during the requisite service period. In general, these awards vest at the end of a three year period from the date of grant and are expensed on a straight-line basis over that period, which is considered to be the requisite service period. The Company uses historical data to estimate the timing and amount of forfeitures. The weighted-average grant-date fair value per share of restricted stock units granted was \$66.24, \$50.48 and \$41.53 in 2015, 2014 and 2013, respectively. The total fair value of restricted stock units vesting was approximately \$3.5 million, \$1.6 million, and \$3.4 million in 2015, 2014 and 2013, respectively.

Transactions related to restricted stock units for the year ended January 29, 2016 are summarized as follows:

	Shares (In thousands)	Weighted- Average Grant- Date Fair Value Per Share
Nonvested at January 30, 2015	285	\$ 43.00
Granted	104	66.24
Vested	(49)	28.05
Canceled or forfeited	(26)	48.87
Nonvested at January 29, 2016	314	\$ 52.52

ESPP

The purchase price of the shares under the ESPP equals 85% of the closing price on the date of purchase. The Company's share-based payment expense per share is equal to 15% of the closing price on the date of purchase. The ESPP is considered a liability award and is measured at fair value at each reporting date, and the share-based payment expense is recognized over the six-month offering period. During 2015, the Company issued 1.3 million shares of common stock and recognized \$14 million of share-based payment expense pursuant to the plan.

NOTE 9: Employee Retirement Plans

The Company maintains a defined contribution retirement plan for its eligible employees (the 401(k) Plan). Employees are eligible to participate in the 401(k) Plan six months after their original date of service. Eligible employees hired or rehired prior to November 1, 2012, were automatically enrolled in the 401(k) Plan at a contribution rate of 1% of their pre-tax annual compensation unless they elected otherwise. Eligible employees hired or rehired November 1, 2012, or later must make an active election to participate in the 401(k) Plan. The Company makes contributions to the 401(k) Plan each payroll period, based upon a matching formula applied to employee deferrals (the Company Match). Participants are eligible to receive the Company Match pursuant to the terms of the 401(k) Plan. The Company Match varies based on how much the employee elects to defer up to a maximum of 4.25% of eligible compensation. The Company Match is invested identically to employee contributions and is immediately vested.

The Company maintains a Benefit Restoration Plan to supplement benefits provided under the 401(k) Plan to participants whose benefits are restricted as a result of certain provisions of the Internal Revenue Code of 1986. This plan provides for employee salary deferrals and employer contributions in the form of a Company Match.

The Company maintains a non-qualified deferred compensation program called the Lowe's Cash Deferral Plan. This plan is designed to permit certain employees to defer receipt of portions of their compensation, thereby delaying taxation on the deferral amount and on subsequent earnings until the balance is distributed. This plan does not provide for Company contributions.

The Company recognized expense associated with employee retirement plans of \$155 million, \$154 million and \$160 million in 2015, 2014 and 2013, respectively.

NOTE 10: Income Taxes

The following is a reconciliation of the federal statutory tax rate to the effective tax rate:

	2015	2014	2013
Statutory federal income tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal tax benefit	3.6	3.3	2.9
Valuation allowance - impairment	4.2	—	—
Other, net	(0.4)	(1.4)	(0.1)
Effective tax rate	42.4%	36.9%	37.8%

The components of the income tax provision are as follows:

(In millions)	2015	2014	2013
Current:			
Federal	\$ 1,688	\$ 1,475	\$ 1,342
State	248	221	203
Total current	1,936	1,696	1,545
Deferred:			
Federal	(59)	(112)	(133)
State	(4)	(6)	(25)
Total deferred	(63)	(118)	(158)
Total income tax provision	\$ 1,873	\$ 1,578	\$ 1,387

The tax effects of cumulative temporary differences that gave rise to the deferred tax assets and liabilities were as follows:

(In millions)	January 29, 2016	January 30, 2015
Deferred tax assets:		
Self-insurance	\$ 369	\$ 378
Share-based payment expense	83	81
Deferred rent	91	88
Impairment of equity method investment	270	—
Foreign currency translation	107	62
Net operating losses	159	152
Other, net	156	131
Total deferred tax assets	1,235	892
Valuation allowance	(447)	(170)
Net deferred tax assets	788	722
Deferred tax liabilities:		
Property	(507)	(534)
Other, net	(40)	(55)
Total deferred tax liabilities	(547)	(589)
Net deferred tax asset	\$ 241	\$ 133

As of January 29, 2016, the Company reported a deferred tax asset of \$270 million related to its intention to exit from the Company's joint venture investment in Australia. The Company established a full valuation allowance against the deferred tax asset related to these losses generated from impairments and equity method losses. These losses are collectively considered capital losses, having a five year carryforward period, and can only be used to offset capital gain income. No present or future capital gains have been identified through which this deferred tax asset can be realized.

The Company operates as a branch in various foreign jurisdictions and cumulatively has incurred net operating losses of \$580 million and \$557 million as of January 29, 2016, and January 30, 2015, respectively. These net operating losses are subject to expiration in 2017 through 2035. Deferred tax assets have been established for these foreign net operating losses in the accompanying consolidated balance sheets. Given the uncertainty regarding the realization of the foreign net deferred tax assets, the Company recorded cumulative valuation allowances of \$177 million and \$170 million as of January 29, 2016, and January 30, 2015, respectively.

The Company has not provided for deferred income taxes on accumulated but undistributed earnings of the Company's foreign operations of approximately \$153 million and \$112 million as of January 29, 2016, and January 30, 2015, respectively, due to its intention to permanently reinvest these earnings outside the U.S. It is not practicable to determine the income tax liability

that would be payable on these earnings. The Company will provide for deferred or current income taxes on such earnings in the period it determines requisite to remit those earnings.

A reconciliation of the beginning and ending balances of unrecognized tax benefits is as follows:

(In millions)	2015		2014		2013	
Unrecognized tax benefits, beginning of year	\$	7	\$	62	\$	63
Additions for tax positions of prior years		—		2		—
Reductions for tax positions of prior years		(2)		(57)		—
Settlements		(2)		—		(1)
Unrecognized tax benefits, end of year	\$	3	\$	7	\$	62

The amounts of unrecognized tax benefits that, if recognized, would favorably impact the effective tax rate were \$2 million and \$4 million as of January 29, 2016, and January 30, 2015, respectively.

The Company recognized \$1 million of interest income related to uncertain tax positions during 2015 and 2014. The Company recognized \$6 million of interest expense related to uncertain tax positions during 2013. As of January 29, 2016 and January 30, 2015, the Company had accrued interest related to uncertain tax positions of \$1 million and \$2 million, respectively. Penalties recognized related to uncertain tax positions were insignificant for 2015, 2014, and 2013. Accrued penalties were also insignificant as of January 29, 2016 and January 30, 2015.

The Company is subject to examination by various foreign and domestic taxing authorities. During 2015, the Company's 2012 Federal tax return was audited by the Internal Revenue Service. This limited scope audit resulted in an assessment of \$14 million. It is reasonably possible that the Company will resolve \$3 million in state related audit items within the next 12 months. There are ongoing U.S. state audits covering tax years 2008 to 2014. An audit of the Company's Canadian operations by the Canada Revenue Agency for fiscal years 2009 and 2010 was closed during the year with no assessment being rendered. The Company remains subject to income tax examinations for international income taxes for fiscal years 2007 through 2014. The Company believes appropriate provisions for all outstanding issues have been made for all jurisdictions and all open years.

Note 11: Earnings Per Share

The Company calculates basic and diluted earnings per common share using the two-class method. Under the two-class method, net earnings are allocated to each class of common stock and participating security as if all of the net earnings for the period had been distributed. The Company's participating securities consist of share-based payment awards that contain a nonforfeitable right to receive dividends and, therefore, are considered to participate in undistributed earnings with common shareholders.

Basic earnings per common share excludes dilution and is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares outstanding for the period. Diluted earnings per common share is calculated by dividing net earnings allocable to common shares by the weighted-average number of common shares as of the balance sheet date, as adjusted for the potential dilutive effect of non-participating share-based awards. The following table reconciles earnings per common share for 2015, 2014 and 2013:

(In millions, except per share data)	2015	2014	2013
Basic earnings per common share:			
Net earnings	\$ 2,546	\$ 2,698	\$ 2,286
Less: Net earnings allocable to participating securities	(12)	(16)	(16)
Net earnings allocable to common shares, basic	\$ 2,534	\$ 2,682	\$ 2,270
Weighted-average common shares outstanding	927	988	1,059
Basic earnings per common share	\$ 2.73	\$ 2.71	\$ 2.14
Diluted earnings per common share:			
Net earnings	\$ 2,546	\$ 2,698	\$ 2,286
Less: Net earnings allocable to participating securities	(12)	(16)	(16)
Net earnings allocable to common shares, diluted	\$ 2,534	\$ 2,682	\$ 2,270
Weighted-average common shares outstanding	927	988	1,059
Dilutive effect of non-participating share-based awards	2	2	2
Weighted-average common shares, as adjusted	929	990	1,061
Diluted earnings per common share	\$ 2.73	\$ 2.71	\$ 2.14

Stock options to purchase 0.3 million, 0.6 million and 1.9 million shares of common stock for 2015, 2014 and 2013, respectively, were excluded from the computation of diluted earnings per common share because their effect would have been anti-dilutive.

NOTE 12: Leases

The Company leases facilities and land for certain facilities under agreements with original terms generally of 20 years. The leases generally contain provisions for four to six renewal options of five years each. Some lease agreements also provide for contingent rentals based on sales performance in excess of specified minimums or on changes in the consumer price index. Contingent rentals were not significant for any of the periods presented. The Company subleases certain properties that are not used in its operations. Sublease income was not significant for any of the periods presented.

The future minimum rental payments required under operating leases and capitalized lease obligations having initial or remaining non-cancelable lease terms in excess of one year are summarized as follows:

(In millions) Fiscal Year	Operating Leases	Capitalized Lease Obligations	Total
2016	\$ 494	\$ 76	\$ 570
2017	489	65	554
2018	470	62	532
2019	440	60	500
2020	415	58	473
Later years	3,086	670	3,756
Total minimum lease payments	\$ 5,394	\$ 991	\$ 6,385
Less amount representing interest		(465)	
Present value of minimum lease payments		526	
Less current maturities		(34)	
Present value of minimum lease payments, less current maturities		\$ 492	

Rental expenses under operating leases were \$473 million, \$445 million and \$421 million in 2015, 2014 and 2013, respectively, and were recognized within SG&A expense. Excluded from these amounts are rental expenses associated with closed locations which were recognized as exit costs in the period of closure.

NOTE 13: Commitments and Contingencies

The Company is, from time to time, party to various legal proceedings considered to be in the normal course of business, none of which, individually or in the aggregate, are expected to be material to the Company's financial statements. In evaluating liabilities associated with its various legal proceedings, the Company has accrued for probable liabilities associated with these matters. The amounts accrued were not material to the Company's consolidated financial statements in any of the years presented. Reasonably possible losses for any of the individual legal proceedings which have not been accrued were not material to the Company's consolidated financial statements.

As of January 29, 2016, the Company had non-cancelable commitments of \$1,046 million related to certain marketing and information technology programs, and purchases of merchandise inventory. Payments under these commitments are scheduled to be made as follows: 2016, \$718 million; 2017, \$115 million; 2018, \$58 million; 2019, \$54 million; 2020, \$57 million; thereafter, \$44 million.

At January 29, 2016, the Company held standby and documentary letters of credit issued under banking arrangements which totaled \$67 million. The majority of the Company's letters of credit were issued for insurance contracts.

NOTE 14: Related Parties

A member of the Company's Board of Directors also serves on the Board of Directors of a vendor that provides branded consumer packaged goods to the Company. The Company purchased products from this vendor in the amount of \$153 million in 2015, \$151 million in 2014, and \$145 million in 2013. Amounts payable to this vendor were insignificant at January 29, 2016 and January 30, 2015.

A member of the Company's Board of Directors also serves on the Board of Directors of a vendor that provides certain services to the Company related to health and welfare benefit plans. The Company made payments to this vendor in the amount of \$58 million in 2015, \$56 million in 2014, and \$15 million in 2013. Amounts payable to this vendor were insignificant at January 29, 2016 and January 30, 2015.

A brother-in-law of the Company's former Chief Customer Officer was a senior officer and shareholder of a vendor that provides millwork and other building products to the Company. This was no longer considered a related party relationship in 2015. The Company purchased products from this vendor in the amount of \$80 million in 2014 and \$70 million in 2013. Amounts payable to this vendor were \$11 million at January 30, 2015.

NOTE 15: Other Information

Net interest expense is comprised of the following:

(In millions)	2015	2014	2013
Long-term debt	\$ 505	\$ 470	\$ 431
Capitalized lease obligations	42	42	40
Interest income	(4)	(6)	(4)
Interest capitalized	(3)	(2)	(4)
Interest on tax uncertainties	(1)	(1)	6
Other	13	13	7
Interest - net	\$ 552	\$ 516	\$ 476

Supplemental disclosures of cash flow information:

(In millions)	2015		2014		2013	
Cash paid for interest, net of amount capitalized	\$	535	\$	504	\$	454
Cash paid for income taxes, net	\$	2,055	\$	1,534	\$	1,505
Non-cash investing and financing activities:						
Non-cash property acquisitions, including assets acquired under capital lease	\$	102	\$	44	\$	15
Cash dividends declared but not paid	\$	255	\$	222	\$	186

Sales by product category:

(Dollars in millions)	2015		2014 ¹		2013 ¹	
	Total Sales	%	Total Sales	%	Total Sales	%
Lumber & Building Materials	\$ 7,110	12%	\$ 6,877	12%	\$ 6,591	12%
Tools & Hardware	6,505	11	6,193	11	5,803	11
Appliances	6,477	11	5,710	10	5,276	10
Fashion Fixtures	5,812	10	5,600	10	5,278	10
Rough Plumbing & Electrical	5,218	9	4,996	9	4,751	9
Lawn & Garden	4,756	8	4,622	8	4,419	8
Seasonal Living	3,953	7	3,735	7	3,620	7
Paint	3,716	6	3,619	6	3,472	6
Flooring	3,338	6	3,218	6	3,061	6
Millwork	3,277	6	3,141	6	2,943	6
Kitchens	3,245	5	3,138	6	3,074	6
Outdoor Power Equipment	2,499	4	2,340	4	2,218	4
Home Fashions	2,470	4	2,414	4	2,350	4
Other	698	1	620	1	561	1
Totals	\$ 59,074	100%	\$ 56,223	100%	\$ 53,417	100%

¹ Certain prior period amounts have been reclassified to conform to current product category classifications.

NOTE 16: Subsequent Events

On February 2, 2016, the Company entered into a definitive agreement to acquire all of the issued and outstanding common shares of RONA inc. (RONA) for C\$24 per share in cash and preferred shares for C\$20 per share in cash, for a total transaction price of approximately C\$3.2 billion. RONA is one of Canada's largest retailers and distributors of hardware, building materials, home renovation, and gardening products. The transaction has been unanimously approved by the Boards of Directors of Lowe's and RONA and is supported by the management teams of both companies; however, the transaction is subject to both shareholder and regulatory approvals. The transaction is expected to close in fiscal year 2016.