**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

# FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended January 29, 2016**

**or**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from _____ to _____**

**Commission file number 1-7898**

# LOWE'S COMPANIES, INC.

(Exact name of registrant as specified in its charter)

| **NORTH CAROLINA** | **56-0578072** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **1000 Lowe's Blvd., Mooresville, NC** | **28117** |
| (Address of principal executive offices) | (Zip Code) |
| Registrant's telephone number, including area code | **704-758-1000** |

Securities registered pursuant to Section 12(b) of the Act:

| **Title of each class** | **Name of each exchange on which registered** |
|---|---|
| **Common Stock, $0.50 Par Value** | **New York Stock Exchange (NYSE)** |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. ☐ Yes ☒ No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☒ No

As of July 31, 2015, the last business day of the Company's most recent second quarter, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $64.3 billion based on the closing sale price as reported on the New York Stock Exchange.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

| CLASS | OUTSTANDING AT 3/24/2016 |
|---|---|
| Common Stock, $0.50 par value | 897,438,629 |

**DOCUMENTS INCORPORATED BY REFERENCE**

| Document | Parts Into Which Incorporated |
|---|---|
| Portions of the Proxy Statement for Lowe's 2016 Annual Meeting of Shareholders | Part III |

**LOWE'S COMPANIES, INC.**
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## Part I

### Item 1 - Business

### General Information

Lowe's Companies, Inc. and subsidiaries (the Company or Lowe's) is a Fortune® 50 company and the world's second largest home improvement retailer. As of January 29, 2016, Lowe's operated 1,857 home improvement and hardware stores, representing approximately 202 million square feet of retail selling space. Lowe's is comprised of 1,805 stores located across 50 U.S. states, including 80 Orchard Supply Hardware (Orchard) stores in California and Oregon, as well as 42 stores in Canada, and 10 stores in Mexico.

Lowe's was incorporated in North Carolina in 1952 and has been publicly held since 1961. The Company's common stock is listed on the New York Stock Exchange - ticker symbol "LOW".

See Item 6, "Selected Financial Data", of this Annual Report on Form 10-K, for historical revenues, profits and identifiable assets. For additional information about the Company's performance and financial condition, see also Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this Annual Report on Form 10-K.

### Customers, Market and Competition

### Our Customers

We serve homeowners, renters, and professional customers (Pro customers). Retail customers, comprised of individual homeowners and renters, complete a wide array of projects and vary along the spectrum of do-it-yourself (DIY) and do-it-for-me (DIFM). The Pro customer consists of two broad categories: construction trades; and maintenance, repair & operations.

### Our Market

We are among the many businesses, including home centers, paint stores, hardware stores, lumber yards and garden centers, whose revenues are included in the Building Material and Garden Equipment and Supplies Dealers Subsector (444) of the Retail Trade Sector of the North American Industry Classification System (NAICS), the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the U.S. business economy. The total annual revenue reported for businesses included in NAICS 444 in 2015 was $332.1 billion, which represented an increase of 4.2% over the amount reported for the same category in 2014. The total annual revenue reported for businesses included in NAICS 444 in 2014 was $318.7 billion, which represented an increase of 5.5% over the amount reported for the same category in 2013. These figures are subject to periodic revision by the U.S. Department of Commerce.

NAICS 444 represents less than half of what we consider the total market for our products and services. The broader market in which Lowe's operates includes home-related sales through a variety of companies beyond those in NAICS 444. These consist of other companies in the retail sector, including mass retailers, home furnishings stores, and online retailers, as well as wholesalers that provide home-related products and services to homeowners, businesses, and the government. Based on our analysis of the most recent comprehensive data available, we estimate the size of the U.S. home improvement market at $735 billion in 2015, comprised of $548 billion of product sales and $187 billion of installed labor sales. That compares with $688 billion total market sales in 2014, comprised of $511 billion of product sales and $177 billion of installed labor sales. These figures are subject to periodic revision by the U.S. Department of Commerce and other third-party sources.

There are many variables that affect consumer demand for the home improvement products and services Lowe's offers. Key indicators we monitor include real disposable personal income, employment, home prices, and housing turnover. We also monitor demographic and societal trends that shape home improvement industry growth.

- Growth in real disposable personal income is projected to moderate to 2.9% in 2016 as compared with 3.4% growth in 2015, based on the March 2016 Blue Chip Economic Indicators®. *

**Blue Chip Economic Indicators® (ISSN: 0193-4600) is published monthly by Aspen Publishers, 76 Ninth Avenue, New York, NY 10011, a division of Wolters Kluwer Law and Business. Printed in the U.S.A.*

- The average unemployment rate for 2016 is forecasted to decline to 4.7%, according to the March 2016 Blue Chip Economic Indicators, which would be an improvement from the 5.3% average in 2015. The unemployment rate should continue to trend lower as the job market continues to expand at a moderate pace.

- Recent evidence suggests that home prices will continue to increase. In 2015, home price appreciation increased 5.5% which was consistent with the 2014 increase, according to the Federal Housing Finance Agency index. Economists generally expect the rate of home price growth to moderate to 3.2% in 2016.

- Housing turnover increased an estimated 7.4% in 2015 after a 2.6% decrease in 2014, according to The National Association of Realtors and U.S. Census Bureau. Turnover is generally expected to continue to increase in 2016, supported by a strengthening jobs market, rising incomes, and historically low mortgage rates.

These indicators are important to our business because they signal a customer's willingness to engage in home maintenance, repair, and upgrade projects and favorably impact income available to purchase our products and services. Overall, the outlook for the home improvement industry remains positive for 2016. The lagged benefit of stronger home buying and continued home price appreciation should drive home improvement spending in 2016, offsetting moderation in job growth and the ongoing potential pressure on mortgage rates.

**Our Competition**

The home improvement industry includes a broad competitive landscape. We compete with other home improvement warehouse chains and lumberyards in most of our trade areas. We also compete with traditional hardware, plumbing, electrical and home supply retailers. In addition, we compete with general merchandise retailers, warehouse clubs, and online and other specialty retailers as well as service providers that install home improvement products. Location of stores continues to be a key competitive factor in our industry; however, the increasing use of technology and the simplicity of online shopping also underscore the importance of omni-channel capabilities as a competitive factor. We differentiate ourselves from our competitors by providing better customer experiences while delivering superior value in products and service. See further discussion of competition in Item 1A, "Risk Factors", of this Annual Report on Form 10-K.

**Products and Services**

**Our Products**

*Product Selection*
To meet customers' varying home improvement needs, we offer a complete line of products for maintenance, repair, remodeling, and decorating. We offer home improvement products in the following categories: Lumber & Building Materials; Tools & Hardware; Appliances; Fashion Fixtures; Rough Plumbing & Electrical; Lawn & Garden; Seasonal Living; Paint; Flooring; Millwork; Kitchens; Outdoor Power Equipment, and Home Fashions. A typical Lowe's home improvement store stocks approximately 36,000 items, with hundreds of thousands of additional items available through our Special Order Sales system, Lowes.com, Lowes.ca, and ATGstores.com. See Note 15 of the Notes to Consolidated Financial Statements included in Item 8, "Financial Statements and Supplementary Data", of this Annual Report on Form 10-K for historical revenues by product category for each of the last three fiscal years.

We are committed to offering a wide selection of national brand-name merchandise complemented by our selection of private brands. In addition, we are dedicated to ensuring the products we sell are sourced in a socially responsible, efficient, and cost effective manner.

*National Brand-Name Merchandise*
In many product categories, customers look for a familiar and trusted national brand to instill confidence in their purchase. Lowe's home improvement stores carry a wide selection of national brand-name merchandise such as Whirlpool® appliances and water heaters, GE®, LG®, and Samsung® appliances, Stainmaster® carpets, Valspar® paints and stains, Pella® windows and doors, Sylvania® light bulbs, Dewalt® power tools, Owens Corning® roofing, Johns Manville® insulation, James Hardie® fiber cement siding, Husqvarna® outdoor power equipment, Werner® ladders, and many more. In 2015, we added brand name merchandise such as HGTV HOME® by Sherwin-Williams® paints, Kichler® lighting, Owens Corning® insulation, GAF® roofing, and Diamond® vanities to our portfolio. Our merchandise selection provides the retail and Pro customer a one-stop shop for a wide variety of national brand-name merchandise needed to complete home improvement, repair, maintenance, or construction projects.

*Private Brands*
Private brands are an important element of our overall portfolio, helping to provide significant value and coordinated style across core categories. We sell private brands in several of our product categories. Some of Lowe's most important private brands include Kobalt® tools, allen+roth® home décor products, Blue Hawk® home improvement products, Project Source® basic value products, Portfolio® lighting products, Garden Treasures® lawn and patio products, Utilitech® electrical and utility products, Reliabilt® doors and windows, Aquasource® faucets, sinks and toilets, Harbor Breeze® ceiling fans, Top Choice® lumber products and Iris® home automation and management products.

*Supply Chain*
We source our products from over 7,500 vendors worldwide with no single vendor accounting for more than 6% of total purchases. We believe that alternative and competitive suppliers are available for virtually all of our products. Whenever possible, we purchase directly from manufacturers to provide savings for customers and improve our gross margin.

To efficiently move product from our vendors to our stores and maintain in-stock levels, we own and operate distribution facilities that enable products to be received from vendors, stored and picked, or cross-docked, and then shipped to our retail locations or directly to customers. These facilities include 15 highly-automated Regional Distribution Centers (RDC) in the United States. On average, each domestic RDC serves approximately 115 stores. We also own and operate a distribution facility to serve our Canadian stores and lease and operate a distribution facility to serve our Orchard stores. Additionally, we have a service agreement with a third party logistics provider to manage a distribution facility to serve our stores in Mexico.

In addition to the RDCs, we also operate coastal holding facilities, transload facilities, appliance distribution centers, and flatbed distribution centers. The flatbed distribution centers distribute merchandise that requires special handling due to size or type of packaging such as lumber, boards, panel products, pipe, siding, ladders, and building materials. Collectively, our facilities enable our import and e-commerce, as well as parcel post eligible products, to get to their destination as efficiently as possible. Most parcel post items can be ordered by a customer and delivered within two business days at standard shipping rates.

In fiscal 2015, on average, approximately 80% of the total dollar amount of stock merchandise we purchased was shipped through our distribution network, while the remaining portion was shipped directly to our stores from vendors.

**Our Services**

*Installed Sales*
We offer installation services through independent contractors in many of our product categories, with Appliances, Flooring, Kitchens, Lumber & Building Materials, and Millwork accounting for the majority of installed sales. Our Installed Sales model, which separates selling and project administration tasks, allows our sales associates to focus on project selling, while project managers ensure that the details related to installing the products are efficiently executed. Installed Sales, which includes both product and labor, accounted for approximately 8% of total sales in fiscal 2015.

*Extended Protection Plans and Repair Services*
We offer extended protection plans in Kitchens, Appliances, Tools & Hardware, Outdoor Power Equipment, Seasonal Living, and Rough Plumbing. Lowe's protection plans provide customers with product protection that enhances or extends coverage previously offered by the manufacturer's warranty. Our extended protection plans provide in-warranty and out-of-warranty repair services for major appliances, outdoor power equipment, tools, grills, fireplaces, water heaters, and other eligible products through our stores or in the home through our Lowe's Authorized Service Repair Network. We offer replacement plans for products in most of these categories when priced below $200, or otherwise specified category specific price points. Our contact center takes customers' calls, assesses the problems, and facilitates resolutions, making after-sales service easier for our customers because we manage the entire process.

**Selling Channels**

We are continuing our progress towards becoming an omni-channel retail company, which allows our customers to move from channel to channel with simple and seamless transitions even within the same transaction. For example, for many projects, more than half of our customers conduct research online before making an in-store purchase. For purchases made on Lowes.com, approximately 60% are picked up in-store, 10% are delivered from a store, and 30% are parcel shipped. Regardless of the channels through which customers choose to engage with us, we strive to provide them with a seamless experience across channels and an endless aisle of products, enabled by our flexible fulfillment capabilities. Our ability to sell products in-store, online, on-site, or through our contact centers speaks to our ability to leverage our existing infrastructure with the omni-channel capabilities we continue to introduce.

*In-Store*
Our 1,777 home improvement stores are generally open seven days per week and average approximately 112,000 square feet of retail selling space, plus approximately 32,000 square feet of outdoor garden center selling space. In addition, we operate 80 Orchard hardware stores located throughout California and Oregon that also serve home improvement customers and average approximately 37,000 square feet of retail selling space. Our home improvement stores offer similar products and services, with certain variations based on local market factors; however, Orchard stores are primarily focused on paint, repair, and backyard products. We continue to develop and implement tools to make our sales associates more efficient and to integrate our order management and fulfillment processes. Our home improvement stores have Wi-Fi capabilities that provide customers with internet access, making information available quickly to further simplify the shopping experience.

*Online*
Through Lowes.com, Lowes.ca, ATGstores.com and mobile applications, we seek to empower consumers by providing a 24/7 shopping experience, online product information, customer ratings and reviews, online buying guides and how-to videos and other information. These tools help consumers make more informed purchasing decisions and give them increased confidence to undertake home improvement projects. In 2015, sales through our online selling channels accounted for approximately 3% of our total sales. We enable customers to choose from a variety of fulfillment options, including buying online and picking up in-store as well as delivery or parcel shipment to their homes.

In addition, during 2015 we re-launched the LowesForPros.com online tool. This full omni-channel experience allows for easy online ordering for our Pro customers, and their choice of in-store pick-up or delivery, saving them time and money.

*On-Site*
We have on-site specialists available for retail and Pro customers to assist them in selecting products and services for their projects. Our Account Executives ProServices meet with Pro customers at their place of business or on a job site and leverage stores within the area to ensure we meet customer needs for products and resources. Our Project Specialist Exteriors (PSE) program is available in all Lowe's stores to discuss exterior projects such as roofing, siding, fencing, and windows, whose characteristics lend themselves to an in-home consultative sales approach. In addition, our Project Specialist Interiors (PSI) program is available in 11 of our 14 regions to provide similar consultative services on interior projects such as kitchens and bathrooms.

*Contact Centers*
Lowe's operates three contact centers which are located in Wilkesboro, NC, Albuquerque, NM, and Indianapolis, IN. These contact centers help Lowe's enable an omni-channel customer experience by providing the ability to tender sales, coordinate deliveries, manage after-sale installations, facilitate repair services for Appliances and Outdoor Power Equipment, and answer general customer questions via phone, e-mail, letters, and social media.

**Employees**

As of January 29, 2016, we employed approximately 180,000 full-time and 90,000 part-time employees. Our employees in Mexico are subject to collective bargaining agreements. No other employees are subject to collective bargaining agreements. Management considers its relations with employees to be good.

**Seasonality and Working Capital**

The retail business in general is subject to seasonal influences, and our business is, to some extent, seasonal. Historically, we have realized the highest volume of sales during our second fiscal quarter (May, June and July) and the lowest volume of sales during our fourth fiscal quarter (November, December and January). Accordingly, our working capital requirements have historically been greater during our fourth fiscal quarter as we build inventory in anticipation of the spring selling season and as we experience lower fourth fiscal quarter sales volumes. We fund our working capital requirements primarily through cash flows generated from operations, but also with short-term borrowings, as needed. For more detailed information, see the Financial Condition, Liquidity and Capital Resources section in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations", of this Annual Report on Form 10-K.

**Intellectual Property**

The name "Lowe's" is a registered service mark of one of our wholly-owned subsidiaries. We consider this mark and the accompanying name recognition to be valuable to our business. This subsidiary has various additional trademarks, trade names and service marks, many of which are used in our private brand program. The subsidiary also maintains various Internet

domain names that are important to our business, and we also own registered and unregistered copyrights. In addition, we maintain patent portfolios related to some of our products and services and seek to patent or otherwise protect certain innovations that we incorporate into our products, services, or business operations.

**Environmental Stewardship**

Lowe's recognizes how efficient operations can help protect the environment and our bottom line. We examine our operations regularly to deliver energy efficiency, reduce fuel consumption, and minimize waste generation through increased recycling. We also invest in technology that will help us operate our facilities more efficiently and environmentally responsibly.

We annually track our carbon footprint and participate in the Carbon Disclosure Project, an independent nonprofit organization hosting the largest database of primary corporate climate change information in the world. To further reduce our carbon footprint, we incorporate energy-efficient technologies and architectural systems into new stores and retrofits of existing stores, such as energy-efficient lighting, white membrane cool roofs, and HVAC units that meet or exceed ENERGY STAR qualifications. We also participate in demand response programs by voluntarily reducing our lighting and HVAC loads during peak demand periods to support electric grid reliability.

During 2015, we began testing a state-of-the-art building management system in stores to control lighting, air conditioning and other building systems. We also implemented a light-emitting diode (LED) lighting initiative in select markets and new stores. All light sources for new stores constructed in the future will be LED.

We strive to deliver products to our stores in a fuel-efficient and an environmentally responsible manner through participation in the SmartWay® Transport Partnership, an innovative program launched by the U.S. Environmental Protection Agency (EPA) in 2004 that promotes cleaner, more fuel-efficient transportation options. Lowe's received a 2015 SmartWay Excellence Award from the EPA, our seventh consecutive SmartWay honor, for our commitment to environmental excellence in freight management operations and reduction of carbon dioxide emissions and other harmful pollutants. We have also increased shipping of products by rail and increased the efficiency of truckload shipments to and from our RDCs.

We continue to take steps to improve our recycling programs and reduce the amount of waste we generate. Through these efforts, we are able to reduce our disposal costs and minimize the impact on the environment of the operation of our stores and other facilities. We also offer convenient recycling for our customers at many of our stores for items such as rechargeable batteries, plastic bags and compact fluorescent light bulbs.

Additionally, we continue to focus on helping consumers reduce their energy and water use and their environmental footprint while saving money when they purchase our products and services. We offer a wide selection of environmentally responsible and energy-efficient products for the home, including ENERGY STAR® appliances, WaterSense® labeled toilets, paint with no volatile organic compounds (VOC), and indoor and outdoor LED lighting. Through our in-home sales specialists, we offer customers installation of insulation and energy efficient windows.

For more information on Lowe's environmental efforts, please visit Lowes.com/SocialResponsibility.

**Compliance with Environmental Matters**

Our operations are subject to numerous federal, state and local laws and regulations that have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the protection of the environment. These laws and regulations may increase our costs of doing business in a variety of ways, including indirectly through increased energy costs, as utilities, refineries, and other major emitters of greenhouse gases are subjected to additional regulation or legislation that seeks to better control greenhouse gas emissions. We do not anticipate any material capital expenditures during fiscal 2016 for environmental control facilities or other costs of compliance with such laws or regulations.

**Investing in Our Communities**

Lowe's has a long and proud history of supporting local communities through public education and community improvement projects, beginning with the creation of the Lowe's Charitable and Educational Foundation in 1957. In 2015, Lowe's and the Lowe's Charitable and Educational Foundation donated more than $33 million to schools and community organizations in the United States, Canada, and Mexico.

Our commitment to improving educational opportunities is best exemplified by our signature education grant program, Lowe's Toolbox for Education®, and 2015 marked the program's 10-year anniversary. Since its inception, Lowe's Toolbox for

Education has provided approximately $48 million in grants, funding improvements at nearly 11,000 schools and benefiting more than six million children along the way.

Each year, we work with national nonprofit partners to strengthen and stabilize neighborhoods in the communities we serve. In 2015, Lowe's contributed $7 million and teamed with Habitat for Humanity and Rebuilding Together to provide housing solutions in partnership with families across the country. We also continued to build on our longstanding partnerships with the Boys & Girls Clubs of America, SkillsUSA, The Nature Conservancy, and Keep America Beautiful to improve communities and build tomorrow's leaders.

Lowe's is also committed to helping residents of the communities we serve by being there when we're needed most - when a natural disaster threatens and in the recovery that follows. In 2015, Lowe's donated nearly $1.5 million and mobilized hundreds of Lowe's Heroes employee volunteers to help families recover from disasters across the United States.

Altogether, Lowe's completed 3,795 community improvement projects in 2015. And for the first time, every single Lowe's store in the United States participated in a Lowe's Heroes volunteer project.

For more information on Lowe's partnerships and latest community improvement projects, visit Lowes.com/SocialResponsibility and LowesInTheCommunity.tumblr.com.

**Available Information**

Our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge through our internet website at www.Lowes.com/investor, as soon as reasonably practicable after such documents are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). The public may also read and copy any materials the Company files with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet site, www.sec.gov, that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

**Item 1A - Risk Factors**

We have developed a risk management process using periodic surveys, external research, planning processes, risk mapping, analytics and other tools to identify and evaluate the operational, financial, environmental, reputational, strategic and other risks that could adversely affect our business. For more information about our risk management framework, which is administered by our Chief Risk Officer and includes developing risk mitigation controls and procedures for the material risks we identify, see the description included in the proxy statement for our annual meeting of shareholders (as defined in Item 10 of Part III of this Annual Report on Form 10-K) under "Board's Role in the Risk Management Process".

We describe below certain risks that could adversely affect our results of operations, financial condition, business reputation or business prospects. These risk factors may change from time to time and may be amended, supplemented or superseded by updates to the risk factors contained in our future periodic reports on Form 10-K, Form 10-Q and reports on other forms we file with the Securities and Exchange Commission. All forward-looking statements about our future results of operations or other matters made by us in this Annual Report on Form 10-K, in our Annual Report to Lowe's Shareholders and in our subsequently filed reports to the Securities and Exchange Commission, as well as in our press releases and other public communications, are qualified by the risks described below.

You should read these Risk Factors in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 and our Consolidated Financial Statements and related notes in Item 8. There also may be other factors that we cannot anticipate or that are not described in this report generally because we do not currently perceive them to be material. Those factors could cause results to differ materially from our expectations.

*We may be unable to adapt our business concept in a rapidly changing retailing environment to address the changing shopping habits, demands and demographics of our customers.*
The home improvement retailing environment, like the retailing environment generally, is rapidly evolving, and adapting our business concept to respond to our customers' changing shopping habits and demands and their changing demographics is critical to our future success. Our success is dependent on our ability to identify and respond to the economic, social, style, and other trends that affect demographic and consumer preferences in a variety of our merchandise categories and service offerings. Customers' expectations about how they wish to research, purchase and receive products and services have also evolved. It is

difficult to predict the mix of products and services that our customers will demand. Failure to identify such trends and adapt our business concept successfully could negatively affect our relationship with our customers, the demand for the home improvement products and services we sell, the rate of growth of our business and our market share.

*We may not be able to realize the benefits of our strategic initiatives focused on omni-channel sales and marketing presence if we fail to deliver the capabilities required to execute on them.*
Our interactions with customers has evolved into an omni-channel experience as they increasingly are using computers, tablets, mobile phones and other devices to shop in our stores and online and provide feedback and public commentary about all aspects of our business. Omni-channel retailing is quickly evolving, and we must anticipate and meet our customer expectations and counteract new developments and technology investments by our competitors. Our customer-facing technology systems must appeal to our customers, function as designed and provide a consistent customer experience. The success of our strategic initiatives to adapt our business concept to our customers' changing shopping habits and demands and changing demographics will require us to deliver large, complex programs requiring more integrated planning, initiative prioritization and program sequencing. These initiatives will require new competencies in many positions, and our management, employees and contractors will have to adapt and learn new skills and capabilities. To the extent they are unable or unwilling to make these transformational changes, we may be unable to realize the full benefits of our strategic initiatives and expand our relevant market access. Our results of operations, financial condition, or business prospects could also be adversely affected if we fail to provide a consistent experience for our customers, regardless of sales channel, if our technology systems do not meet our customers' expectations, if we are unable to counteract new developments and innovations implemented by our competitors, or if we are unable to attract and retain additional personnel at various levels of the Company who have the skills and capabilities we need to implement our strategic initiatives and drive the changes that are essential to successfully adapting our business concept in the rapidly changing retailing environment.

*Our business and our reputation could be adversely affected by the failure to protect sensitive customer, employee, vendor or Company information or to comply with evolving regulations relating to our obligation to protect our systems, assets and such information from the threat of cyber-attacks.*
Cyber-attacks and tactics designed to gain access to and exploit sensitive information by breaching mission critical systems of large organizations are constantly evolving, and high profile electronic security breaches leading to unauthorized release of sensitive customer information have occurred in recent years with increasing frequency at a number of major U.S. companies, including several large retailers, despite widespread recognition of the cyber-attack threat and improved data protection methods. As with many other retailers, we receive and store certain personal information about our customers, employees and vendors. Additionally, we use third-party service providers for services, such as authentication, content delivery, back-office support and other functions. Despite our continued vigilance and investment in information security, we or our third-party service providers may be unable to adequately anticipate or prevent a breach in our or their systems that results in the unauthorized release of sensitive data. Should this occur, it may have a material adverse effect on our reputation, drive customers away and lead to financial losses from remedial actions, or potential liability, including possible punitive damages. A security breach resulting in the unauthorized release of sensitive data from our or our third-party service providers' information systems could also materially increase the costs we already incur to protect against such risks. In addition, as the regulatory environment relating to retailers and other companies' obligation to protect such sensitive data becomes stricter, a material failure on our part to comply with applicable regulations could subject us to fines or other regulatory sanctions and potentially to lawsuits.

*We are subject to payments-related risks that could increase our operating costs, expose us to fraud, subject us to potential liability and potentially disrupt our business.*
We accept payments using a variety of methods, including credit card, debit card, credit accounts, our private label and co-branded credit cards, gift cards, direct debit from a customer's bank account, consumer invoicing, and physical bank checks, and we may offer different payment options over time. These payment options subject us to many compliance requirements, including, but not limited to, compliance with payment card association operating rules, including data security rules, certification requirements, rules governing electronic funds transfers and Payment Card Industry Data Security Standards. They also subject us to potential fraud by criminal elements seeking to discover and take advantage of security vulnerabilities that may exist in some of these payment systems. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We rely on third parties to provide payment processing services, including the processing of credit cards, debit cards, electronic checks, gift cards, and promotional financing, and it could disrupt our business if these companies become unwilling or unable to provide these services to us. If we fail to comply with these rules or requirements, or if our data security systems are breached or compromised, we may be liable for card issuing banks' costs, subject to fines and higher transaction fees, and lose our ability to accept credit and debit card payments from our customers, process electronic funds transfers, or facilitate other types of online payments, and our business and operating results could be adversely affected.

*As customer-facing technology systems become an increasingly important part of our omni-channel sales and marketing strategy, the failure of those systems to perform effectively and reliably could keep us from delivering positive customer experiences.*
Access to the internet from computers, tablets, smart phones and other mobile communication devices has empowered our customers and changed the way they shop and how we interact with them. Our websites, including Lowes.com and Lowesforpros.com, is a sales channel for our products, and is also a method of making product, project and other relevant information available to them that impacts our in-store sales. Additionally, we have multiple affiliated websites and mobile apps through which we seek to inspire, inform, cross-sell, establish online communities among and otherwise interact with our customers. Performance issues with these customer-facing technology systems, including temporary outages caused by distributed denial of service or other cyber-attacks, or a complete failure of one or more of them without a disaster recovery plan that can be quickly implemented could quickly destroy the positive benefits they provide to our home improvement business and negatively affect our customers' perceptions of Lowe's as a reliable online vendor and source of information about home improvement products and services.

*If we fail to hire, train, manage and retain qualified sales associates and specialists with expanded skill sets or corporate support staff with the capabilities of delivering on strategic objectives, we could lose sales to our competitors, and our labor costs, resulting from operations or the execution of corporate strategies, could be negatively affected.*
Our customers, whether they are homeowners, renters or commercial businesses, expect our sales associates and specialists to be well trained and knowledgeable about the products we sell and the home improvement services we provide. We compete with other retailers for many of our sales associates and specialists, and we invest significantly in them with respect to training and development to strive for high engagement. Increasingly, our sales associates and specialists must have expanded skill sets, including, in some instances, the ability to do in-home or telephone sales. A critical challenge we face is attracting and retaining a sufficiently diverse workforce that can deliver relevant, culturally competent and differentiated experience for a wide variety of culturally diverse customers. In fact, many of our stores our employees must be able to serve customers whose primary language and cultural traditions are different from their own. Additionally, in order to deliver on the omni-channel expectations of customers, we rely on the specialized training and capabilities of corporate support staff which are broadly sought after by our competitors. If we are unable to hire, train, manage and retain qualified sales associates and specialists, the quality of service we provide to our customers may decrease and our results of operations could be negatively affected. Furthermore, our ability to meet our labor needs while controlling our costs is subject to a variety of external factors, including wage rates, the availability of and competition for talent, health care and other benefit costs, our brand image and reputation, changing demographics, and adoption of new or revised employment and labor laws and regulations. Periodically, we are subject to labor organizing efforts, and if we become subject to collective bargaining agreements in the future, it could adversely affect how we operate our business and adversely affect our labor costs and our ability to retain a qualified workforce.

*Positively and effectively managing our public image and reputation is critical to our business success, and, if our public image and reputation are damaged, it could negatively impact our relationships with our customers, vendors and store associates and specialists and, consequently, our business and results of operations.*
Our public image and reputation are critical to ensuring that our customers shop at Lowe's, our vendors want to do business with Lowe's and our sales associates and specialists want to work for Lowe's. We must continue to manage, preserve and grow Lowe's public image and reputation. Any negative incident can erode trust and confidence quickly, and adverse publicity about us could damage our reputation and brand image, undermine our customers' confidence, reduce demand for our products and services, affect our relationships with current and future vendors, impact our results of operations and affect our ability to retain and recruit store associates and specialists. The significant expansion in the use of social media over recent years has compounded the potential scope of the negative publicity that could be generated by such negative incidents.

*Strategic transactions, including our pending acquisition of RONA inc. (RONA), involve risks, and we may not realize the expected benefits because of numerous uncertainties and risks.*
We regularly consider and enter into strategic transactions, including mergers, acquisitions, joint ventures, investments and other growth, market and geographic expansion strategies, with the expectation that these transactions will result in increases in sales, cost savings, synergies and other various benefits. As discussed in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Executive Overview - Looking Forward" of this Annual Report on Form 10-K, in early 2016, we announced a definitive agreement to acquire RONA. Our ability to deliver the expected benefits from any strategic transactions is subject to numerous uncertainties and risks, including our ability to integrate personnel, labor models, financial, IT and other systems successfully; disruption of our ongoing business and distraction of management; hiring additional management and other critical personnel; and increasing the scope, geographic diversity and complexity of our operations. Effective internal controls are necessary to provide reliable and accurate financial reports, and the integration of businesses may create complexity in our financial systems and internal controls and make them more difficult to manage. Integration of businesses into our internal control system could cause us to fail to meet our financial reporting obligations. Additionally, any

impairment of goodwill or other intangible assets acquired or divested in a strategic transaction or charges to earnings associated with any strategic transaction, may materially reduce our earnings. Our shareholders may react unfavorably to our strategic transactions, and, if we do not realize any anticipated benefits from such transactions, we may be exposed to additional liabilities of any acquired business or joint venture and we may be exposed to litigation in connection with the strategic transaction. Further, we may finance these strategic transactions by incurring additional debt, which could increase leverage or impact our ability to access capital in the future.

*Our pending acquisition of RONA may not close when we expect, or at all.*
The consummation of our pending transaction to acquire all of the issued and outstanding common shares and preferred shares of RONA is subject to RONA common shareholder approval and satisfaction of customary closing conditions, including the receipt of all necessary regulatory approvals. If these conditions are not satisfied or waived, the acquisition will not be consummated. There can be no assurance that we will complete the acquisition on the time frame that we anticipate or under the terms set forth in the arrangement agreement, or at all. Failure to complete the acquisition of RONA or any delays in completing the acquisition could have an adverse impact on our future business and operations. In addition, we will have incurred significant acquisition-related expenses without realizing the expected benefits.

*Failure to achieve and maintain a high level of product and service quality could damage our image with customers and negatively impact our sales, profitability, cash flows and financial condition.*
Product and service quality issues could result in a negative impact on customer confidence in Lowe's and the Company's brand image. If our product and service offerings do not meet applicable safety standards or our customers' expectations regarding safety or quality, we could experience lost sales and increased costs and be exposed to legal, financial and reputation risks. Actual, potential or perceived product safety concerns could expose us to litigation as well as government enforcement action and result in costly product recalls and other liabilities. As a result, Lowe's reputation as a retailer of high quality products and services, including both national and Lowe's private brands, could suffer and impact customer loyalty.

*We have many competitors who could take sales and market share from us if we fail to execute our merchandising, marketing and distribution strategies effectively, or if they develop a substantially more effective or lower cost means of meeting customer needs, resulting in a negative impact on our business and results of operations.*
We operate in a highly competitive market for home improvement products and services and have numerous large and small, direct and indirect competitors. The principal competitive factors in our industry include convenience, customer service, quality and price of merchandise and services, in-stock levels, and merchandise assortment and presentation. We face growing competition from online and multi-channel retailers who have a similar product or service offering. Customers are increasingly able to quickly comparison shop and determine real-time product availability or price using digital tools. Our failure to respond effectively to competitive pressures and changes in the markets for home improvement products and services could affect our financial performance. Moreover, changes in the promotional pricing and other practices of our competitors, including the effects of competitor liquidation activities, may impact our results.

*Our inability to effectively manage our relationships with selected suppliers of brand name products could negatively impact our business plan and financial results.*
We form strategic relationships with selected suppliers to market and develop products under a variety of recognized and respected national and international brand names. We also have relationships with certain suppliers to enable us to sell proprietary products which differentiate us from other retailers. The inability to effectively and efficiently manage and maintain these relationships with these suppliers could negatively impact our business operation and financial results.

*Failure of a key vendor or service provider that we cannot quickly replace could disrupt our operations and negatively impact our business, financial condition and results of operations.*
No single vendor of the products we sell accounts for more than 6% of our total purchases, but we rely upon a number of vendors as the sole or primary source of some of the products we sell. We also rely upon many independent service providers for technology solutions and other services that are important to many aspects of our business. Many of these vendors and service providers have certain products or specialized skills needed to support our business concept and our strategies. If these vendors or service providers discontinue operations or are unable to perform as expected or if we fail to manage them properly and we are unable to replace them quickly, our business could be adversely affected, at least temporarily, until we are able to replace them and potentially, in some cases, permanently.

*If our domestic or international supply chain or our fulfillment network for our products is disrupted for any reason, our sales and gross margin would be adversely impacted.*
We source, stock, and sell products from over 7,000 domestic and international vendors and their ability to reliably and efficiently fulfill our orders is critical to our business success. We source a large number of those products from foreign

manufacturers with China continuing to be the dominant import source. Financial instability among key vendors, political instability and labor unrest in source countries or elsewhere in our supply chain, changes in the costs of commodities in our supply chains (fuel, labor and currency exchange rates), port labor disputes, weather-related events, natural disasters, work stoppages, shipping capacity restrains, retaliatory trade restrictions imposed by either the United States or a major source country, tariffs, currency exchange rates and transport availability, capacity and costs are beyond our control and could negatively impact our business if they seriously disrupted the movement of products through our supply chain or increased their costs. Additionally, as we add fulfillment capabilities or pursue strategies with different fulfillment requirements, our network becomes increasingly complex. If our fulfillment network does not operate properly or if a vendor fails to deliver on its commitments, then we will experience delay in inventory, increased delivery costs, merchandise out-of-stocks which would negatively affect our results of operations.

*Failure to effectively manage our third party installers could result in increased operational and legal risks and negatively impact our business, financial condition and results of operations.*
We use third party installers to provide installation services to our customers, and, as the general contractor, we are subject to regulatory requirements and risks, applicable to general contractors, including the management of the permitting, licensing and quality of our third party installers. Our failure to effectively manage such requirements, the third party installers, and our internal processes regarding installation services could result in lost sales, fines and lawsuits, as well as damage to our reputation, which could negatively affect our business.

*Operating internationally presents unique challenges, including some that have required us to adapt our store operations, merchandising, marketing and distribution functions to serve customers in Canada and Mexico. Our business and results of operations could be negatively affected if we are unable to effectively address these challenges.*
We expect a significant portion of our anticipated store growth over the next five years will be in Canada and Mexico. Expanding internationally presents unique challenges that may increase the anticipated costs and risks, and slow the anticipated rate, of such expansion. Our future operating results in these countries or in other countries or regions in which we currently operate or may operate in the future could be negatively affected by a variety of factors, including unfavorable political or economic factors, adverse tax consequences, volatility in foreign currency exchange rates, increased difficulty in enforcing intellectual property rights, costs and difficulties of managing international operations, challenges with identifying and contracting with local suppliers and other risks created as a result of differences in culture, laws and regulations. These factors could restrict our ability to operate our international businesses profitably and therefore have a negative impact on our financial position and results of operations. In addition, our reported results of operations and financial position could also be negatively affected by exchange rates when the activities and balances of our foreign operations are translated into U.S. dollars for financial reporting purposes.

*We must comply with various and multiple laws and regulations that differ substantially in each area where we operate. Changes in existing or new laws and regulations or regulatory enforcement priorities, or our inability to comply with such laws and regulations, could adversely affect our business, financial condition and results of operations.*
Laws and regulations at the local, regional, state, federal and international levels change frequently, and the changes can impose significant costs and other burdens of compliance on our business and our vendors. If we fail to comply with these laws, rules and regulations, or the manner in which they are interpreted or applied, we may be subject to government enforcement action, litigation, damage to our reputation, civil and criminal liability, damages, fines and penalties, and increased cost of regulatory compliance, any of which could adversely affect our results of operations and financial performance. These laws, rules and regulations include, but are not limited to, import and export requirements, U.S. laws such as the Foreign Corrupt Practices Act, and local laws prohibiting corrupt payments to governmental officials. Although we have implemented policies and procedures to help ensure compliance with these laws, there can be no certainty that our employees and third parties with whom we do business will not take actions in violation of our policies or laws. Many of these laws are complex, evolving and are subject to varying interpretations and enforcement actions. Any changes in regulations, the imposition of additional regulations, or the enactment of any new legislation could have an adverse impact, directly or indirectly, on our financial condition and results of operations. We may also be subject to investigations or audits by governmental authorities and regulatory agencies as a result of enforcing existing laws and regulations or changes in enforcement priorities, which can occur in the ordinary course of business or which can result from increased scrutiny from a particular agency towards an industry, country or practice.

*Future litigation or governmental proceedings could result in material adverse consequences, including judgments or settlements, negatively affecting our business, financial condition and results of operations.*
We are, and in the future will become, involved in lawsuits, regulatory inquiries, and governmental and other legal proceedings arising out of the ordinary course of our business. Some of these proceedings may raise difficult and complicated factual and legal issues and can be subject to uncertainties and complexities. The timing of the final resolutions to lawsuits, regulatory inquiries, and governmental and other legal proceedings is typically uncertain. Additionally, the possible outcomes of, or

resolutions to, these proceedings could include adverse judgments or settlements, either of which could require substantial payments. Additionally, defending against these lawsuits and proceedings may require a diversion of management's attention and resources. None of the legal proceedings in which we are currently involved, individually or collectively, is considered material.

*Our financial performance could suffer if we fail to properly improve and maintain our critical information systems or if those systems are seriously disrupted.*
An important part of our efforts to provide an omni-channel experience for our customers, we must invest in, maintain and make ongoing improvements of our existing management information systems that support operations such as sales, inventory replenishment, merchandise ordering, project design and execution, transportation, receipt processing and fulfillment. Our systems are subject to damage or interruption as a result of catastrophic events, power outages, viruses, malicious attacks, telecommunications failures, and we may incur significant expense, data loss as well as a well in customer confidence. Additionally, we continually make investments in our systems which may introduce disruption. Our financial performance could be adversely affected if our management information systems are seriously disrupted or we are unable to maintain, improve, upgrade, and expand our systems.

*Liquidity and access to capital rely on efficient, rational and open capital markets and are dependent on Lowe's credit strength. Our inability to access capital markets could negatively affect our business, financial performance and results of operations.*
We have relied on the public debt markets to fund portions of our capital investments and the commercial paper market and bank credit facilities to fund working capital needs. Our access to these markets depends on our strong credit ratings, the overall condition of debt capital markets and our operating performance. Disruption in the financial markets or an erosion of our credit strength or declines on our credit rating could impact negatively our ability to meet capital requirements or fund working capital needs.

*Our sales are dependent upon the health and stability of the general economy. Adverse changes in economic factors specific to the home improvement industry may negatively impact the rate of growth of our total sales and comparable sales.*
Many U.S. and global economic factors may adversely affect our financial performance. These include, but are not limited to, periods of slow economic growth or recession, volatility and/or lack of liquidity from time to time in U.S. and world financial markets and the consequent reduced availability and/or higher cost of borrowing to Lowe's and its customers, slower rates of growth in real disposable personal income that could affect the rate of growth in consumer spending, high rates of unemployment, consumer debt levels, fluctuations in fuel and energy costs, inflation or deflation of commodity prices, natural disasters, and acts of both domestic and international terrorism. Sales of many of our product categories and services are driven by the activity level of home improvement projects. Although the housing market has been strengthened by favorable interest rates and increasing home prices, the large number of households that continue to have little available equity, mortgage delinquency and foreclosure rates that remain high, tight restrictions on the availability of mortgage financing, slow household formation growth rates, and decreases in housing turnover through existing home sales, have limited, and may continue to limit, consumers' discretionary spending, particularly on larger home improvement projects that are important to the growth of our business.

**Item 1B - Unresolved Staff Comments**

None.

**Item 2 - Properties**

At January 29, 2016, our properties consisted of 1,857 stores in the U.S., Canada, and Mexico with a total of approximately 202 million square feet of selling space. Of the total stores operating at January 29, 2016, approximately 86% are owned, which includes stores on leased land, with the remainder being leased from third parties. We also operate regional distribution centers and other facilities to support distribution and fulfillment, as well as data centers and various support offices. Our executive offices are located in Mooresville, North Carolina. We own or lease substantially all of our property through the wholly-owned subsidiary, Lowe's Home Centers, LLC.

**Item 3 - Legal Proceedings**

We are, from time to time, party to various legal proceedings considered to be in the normal course of business, none of which are considered material. We do not believe that any of these proceedings, individually or in the aggregate, would be expected to have a material adverse effect on our results of operations, financial position or cash flows.

**Item 4 - Mine Safety Disclosures**

Not applicable.

**EXECUTIVE OFFICERS AND CERTAIN SIGNIFICANT EMPLOYEES OF THE REGISTRANT**

Set forth below is a list of names and ages of the executive officers and certain significant employees of the registrant indicating all positions and offices with the registrant held by each such person and each person's principal occupations or employment during the past five years. Each executive officer of the registrant is elected by the board of directors at its first meeting after the annual meeting of shareholders and thereafter as appropriate. Each executive officer of the registrant holds office from the date of election until the first meeting of the directors held after the next annual meeting of shareholders or until a successor is elected.

| Name | Age | Title |
|---|---|---|
| Robert A. Niblock | 53 | Chairman of the Board, President and Chief Executive Officer since 2011; Chairman of the Board and Chief Executive Officer, 2006 – 2011. |
| Marshall A. Croom | 55 | Chief Risk Officer since 2012; Senior Vice President and Chief Risk Officer, 2009 – 2012. |
| Rick D. Damron | 53 | Chief Operating Officer since 2012; Executive Vice President, Store Operations, 2011 – 2012; Senior Vice President, Logistics, 2009 – 2011. |
| Matthew V. Hollifield | 49 | Senior Vice President and Chief Accounting Officer since 2005. |
| Robert F. Hull, Jr. | 51 | Chief Financial Officer since 2012; Executive Vice President and Chief Financial Officer since 2004. |
| Michael A. Jones | 53 | Chief Customer Officer since 2014; Chief Merchandising Officer 2013 – 2014; President, North and Latin America, The Husqvarna Group, 2009 – 2013. |
| Richard D. Maltsbarger | 40 | Chief Development Officer and President of International since 2015; Chief Development Officer, 2014 – 2015; Business Development Executive, 2012 – 2014; Senior Vice President, Strategy, 2011 – 2012; Vice President, Strategic Planning 2010 – 2011; Vice President, Research, 2006 – 2010. |
| Ross W. McCanless | 58 | General Counsel, Secretary and Chief Compliance Officer since 2015; Chief Legal Officer, Extended Stay America, Inc. and ESH Hospitality, Inc., 2013 – 2014; Chief Legal Officer, HVM, L.L.C., 2012 – 2013; Private Investor, 2007 – 2011. |
| N. Brian Peace | 50 | Corporate Administration Executive since 2012; Senior Vice President, Corporate Affairs, 2006 – 2012. |
| Paul D. Ramsay | 51 | Chief Information Officer since 2014; Senior Vice President, Information Technology, 2011 – 2014; Vice President, Information Technology, Exploration and Production, Hess Corporation, 2010 – 2011 |
| Jennifer L. Weber | 49 | Chief Human Resources Officer since 2016; Executive Vice President, External Affairs and Strategic Policy, Duke Energy Corporation, 2014 – 2016; Executive Vice President and Chief Human Resources Officer, Duke Energy Corporation, 2011 – 2014. |

## Part II

### Item 5 - Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

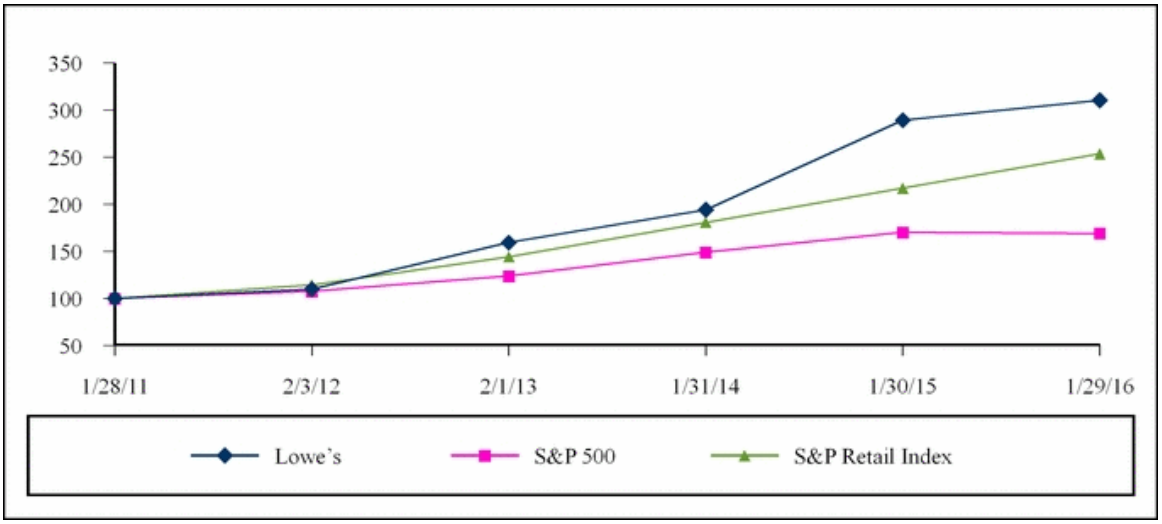
Lowe's common stock is traded on the New York Stock Exchange (NYSE). The ticker symbol for Lowe's is "LOW". As of March 24, 2016, there were 24,337 holders of record of Lowe's common stock. The following table sets forth, for the periods indicated, the high and low sales prices per share of the common stock as reported by the NYSE Composite Tape and the dividends per share declared on the common stock during such periods.

| | Fiscal 2015 | | | Fiscal 2014 | | |
|---|---|---|---|---|---|---|
| | High | Low | Dividend | High | Low | Dividend |
| 1st Quarter | $ 76.25 | $ 66.17 | $ 0.23 | $ 51.28 | $ 44.45 | $ 0.18 |
| 2nd Quarter | 73.93 | 65.83 | 0.28 | 48.54 | 44.13 | 0.23 |
| 3rd Quarter | 74.78 | 64.22 | 0.28 | 57.41 | 47.52 | 0.23 |
| 4th Quarter | 78.13 | 66.93 | 0.28 | 71.11 | 56.76 | 0.23 |

**Total Return to Shareholders**

The following information in Item 5 of this Annual Report on Form 10-K is not deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C under the Securities Exchange Act of 1934 or to the liabilities of Section 18 of the Securities Exchange Act of 1934, and will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent we specifically incorporate it by reference into such a filing.

The following table and graph compare the total returns (assuming reinvestment of dividends) of the Company's common stock, the S&P 500 Index and the S&P Retailing Industry Group Index (S&P Retail Index). The graph assumes $100 invested on January 28, 2011 in the Company's common stock and each of the indices.




| | 1/28/2011 | 2/3/2012 | 2/1/2013 | 1/31/2014 | 1/30/2015 | 1/29/2016 |
|---|---|---|---|---|---|---|
| Lowe's | $ 100.00 | $ 110.16 | $ 159.30 | $ 194.27 | $ 289.06 | $ 310.38 |
| S&P 500 | 100.00 | 107.66 | 123.87 | 149.02 | 170.22 | 169.09 |
| S&P Retail Index | $ 100.00 | $ 114.50 | $ 144.15 | $ 180.63 | $ 216.93 | $ 253.36 |

**Issuer Purchases of Equity Securities**

The following table sets forth information with respect to purchases of the Company's common stock made during the fourth quarter of 2015:

| (In millions, except average price paid per share) | Total Number of Shares Purchased [1] | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [2] | Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs [2] |
|---|---|---|---|---|
| October 31, 2015 – November 27, 2015 [3] | 2.5 | $ 73.08 | 2.5 | $ 4,018 |
| November 28, 2015 – January 1, 2016 | 2.8 | 75.92 | 2.7 | 3,809 |
| January 2, 2016 – January 29, 2016 | 3.3 | 71.18 | 3.3 | 3,576 |
| **As of January 29, 2016** | **8.6** | **$ 73.27** | **8.5** | **$ 3,576** |

[1] *During the fourth quarter of fiscal 2015, the Company repurchased an aggregate of 8.6 million shares of its common stock. The total number of shares purchased also includes an insignificant number of shares withheld from employees to satisfy either the exercise price of stock options or the statutory withholding tax liability upon the vesting of restricted stock awards.*

[2] *On February 26, 2014, the Company announced that its Board of Directors authorized a $5.0 billion repurchase program with no expiration. On March 20, 2015, the Company announced that its Board of Directors authorized an additional $5.0 billion of share repurchases with no expiration. As of January 29, 2016, the Company had $3.6 billion remaining available under the program. In fiscal 2016, the Company expects to repurchase shares totaling $3.5 billion through purchases made from time to time either in the open market or through private off market transactions in accordance with SEC regulations.*

[3] *In September 2015, the Company entered into an ASR agreement with a third-party financial institution to repurchase $500 million of the Company's common stock. Pursuant to the agreement, the Company paid $500 million to the financial institution and received an initial delivery of 6.2 million shares. In November 2015, the Company finalized the transaction and received an additional 0.9 million shares. The average price paid per share in settlement of the ASR agreement included in the table above was determined with reference to the volume-weighted average price of the Company's common stock over the term of the ASR agreement. See Note 7 to the consolidated financial statements included in this report.*

**Item 6 - Selected Financial Data**

| **Selected Statement of Earnings Data**<br>(In millions, except per share data) | **2015** | **2014** | **2013** | **2012** | **2011** [1] |
|---|---|---|---|---|---|
| Net sales | $ 59,074 | $ 56,223 | $ 53,417 | $ 50,521 | $ 50,208 |
| Gross margin | 20,570 | 19,558 | 18,476 | 17,327 | 17,350 |
| Net earnings | 2,546 | 2,698 | 2,286 | 1,959 | 1,839 |
| Basic earnings per common share | 2.73 | 2.71 | 2.14 | 1.69 | 1.43 |
| Diluted earnings per common share | 2.73 | 2.71 | 2.14 | 1.69 | 1.43 |
| Dividends per share | $ 1.07 | $ 0.87 | $ 0.70 | $ 0.62 | $ 0.53 |
| **Selected Balance Sheet Data** | | | | | |
| Total assets [2] | $ 31,266 | $ 31,721 | $ 32,471 | $ 32,441 | $ 33,369 |
| Long-term debt, excluding current maturities [2] | $ 11,545 | $ 10,806 | $ 10,077 | $ 9,022 | $ 7,028 |

[1] *Fiscal 2011 contained 53 weeks, while all other years contained 52 weeks.*

[2] *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, and ASU 2015-17, Balance Sheet Classification of Deferred Taxes. The adoption of these accounting standards required reclassification of current deferred tax assets and liabilities to non-current, as well as reclassification of debt issuance costs from other assets to long-term debt, excluding current maturities.*

**Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis summarizes the significant factors affecting our consolidated operating results, financial condition, liquidity and capital resources during the three-year period ended January 29, 2016 (our fiscal years 2015, 2014 and 2013). Unless otherwise noted, 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. We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. This discussion should be read in conjunction with our consolidated financial statements and notes to the consolidated financial statements included in this Annual Report on Form 10-K that have been prepared in accordance with accounting principles generally accepted in the United States of America. This discussion and analysis is presented in seven sections:

- Executive Overview
- Operations
- Lowe's Business Outlook
- Financial Condition, Liquidity and Capital Resources
- Off-Balance Sheet Arrangements
- Contractual Obligations and Commercial Commitments
- Critical Accounting Policies and Estimates

**EXECUTIVE OVERVIEW**

Net sales for 2015 were $59.1 billion, a 5.1% increase over fiscal year 2014. Comparable sales increased 4.8%, driven by a comparable average ticket increase of 2.5% and a comparable transaction increase of 2.2%. Net earnings, which were negatively impacted by an impairment charge discussed below, declined 5.6% to $2.5 billion. Diluted earnings per common share increased to $2.73 from $2.71 in 2014.

Results for 2015 were negatively impacted by a $530 million non-cash impairment charge associated with our decision to exit the Australian home improvement market by withdrawing from our joint venture with Woolworths Limited. Excluding the impact of this charge, adjusted net income totaled $3.1 billion, an increase of 14.0% over 2014, and adjusted diluted earnings per share increased 21.4% to $3.29 (see discussion on non-GAAP financial measures beginning on page 21).

For 2015, cash flows from operating activities were approximately $4.8 billion, with $1.2 billion used for capital expenditures. Delivering on our commitment to return excess cash to shareholders, the company repurchased 53.5 million shares of stock through the share repurchase program for $3.8 billion and paid $957 million in dividends during the year.

Throughout 2015, we remained committed to our key priorities, capitalizing on opportunities within an improving economy and further pursue top line growth through differentiating ourselves with better customer experiences, improving our product and service offering for the Pro customer, and driving productivity and profitability. In addition, we continued to enhance our omni-channel capabilities, providing not just the products, but also the services, information, and advice to help our customers at every step of the home improvement journey and build a greater affinity for the Lowe's brand.

Through collaboration between our merchants, stores, and customer experience design team, we leveraged our customer experience design capabilities as well as our larger store format to showcase the Outdoor Living Experience and the Holiday Décor Experience which drove strong sales and attachment for products during the year. To help customers envision and create their outdoor spaces for spring, we displayed patio sets with coordinating rugs, umbrellas, and accessories, along with grills and other outdoor products just as they would have expected in their own backyard. This space was re-purposed for the Holiday Décor Experience in the second half of the year which inspired customers to decorate, raised awareness of the breadth of holiday décor and gift offerings, and provided project solutions relevant to the holiday micro seasons. By providing an integrative and cohesive assortment of products, inspiring and intuitive presentation and display, and optimal service components across all selling channels, we are able to provide better customer experiences that differentiate us in the marketplace.

We remained committed to building on our strong foundation with the Pro customer by continuing to advance our product and service offerings to meet their unique needs. Throughout the year, we have strengthened our portfolio of Pro-focused brands with the addition of both national and local brands. In addition, our re-launch of LowesForPros.com in the first half of the year provides the Pro customer with an easy online ordering experience with their choice of in-store pick-up or delivery, saving the Pro time and money. The site makes it easy for Pros to manage multiple properties and easily purchase items for their locations

nationwide. We are also reconnecting with Pro customers through targeted marketing, as well as Pro-focused events to drive awareness and generate new business.

In an effort to drive expense productivity during 2015, we effectively managed payroll hours on solid comparable sales growth and improved productivity in advertising through targeted spend. We increased the efficiency and effectiveness of our marketing spend through optimized media allocation, presence in targeted digital advertising, expanded social media presence, and reduced print advertising, all while maintaining our customer reach and improving exposure. In addition to payroll and marketing expenses, we remain committed to identifying and implementing additional expense efficiencies by leveraging our scale to achieve cost savings on indirect spend, which improves the flow through of sales dollars to operating profit.

We also continued to enhance our omni-channel capabilities in 2015. Online, we have enhanced our customer experience and presentation through Lowes.com, including improved product search, integrated and upgraded product videos, enhanced product presentation, and simplified product groupings to make it easy for customers to make their selections. Our in-home selling networks, including both interior and exterior project specialists, continued to expand with exterior specialists available across all US stores and interior specialists expected in all stores by the end of fiscal year 2016.

**Looking Forward**

Economic forecasts for 2016 suggest the outlook for the home improvement industry remains positive. Continued support from steady job growth and improved household incomes, as well as favorable trends in the housing market, should keep home improvement growth buoyant. Despite recent volatility in the financial markets, the fundamentals for continued growth in consumer spending remain intact. Consumers should continue to benefit from improved household financial conditions and lower gas prices on top of moderate job and income growth.

As we move into 2016, we continue to take a prudent approach to managing our portfolio of businesses, making decisions that will shape how we better serve and connect with customers. With the decision to exit the Australian home improvement market during the fourth quarter of 2015, we will focus our resources on areas of the business where we see greater potential return on investment. In early 2016, we announced a definitive agreement to acquire RONA inc. (RONA), a major Canadian retailer and distributor of hardware, building materials, and home renovation products. This transaction is expected to accelerate Lowe's growth strategy by significantly expanding our presence in the Canadian market through the addition of RONA's attractive business and store locations. The transaction is subject to RONA common shareholder approval and receipt of all necessary regulatory approvals and is expected to close in the second half of 2016.

At the same time we are reinforcing our international business, we will remain focused on growing sales by continuing to differentiate ourselves through better customer experiences that make us the project authority, improving our product and service offering for the Pro customer, and enhancing our omni-channel capabilities to support customers at every step of their home improvement journey. We will also focus on driving productivity and profitability through payroll and marketing optimization and leveraging our scale to achieve cost savings on indirect spend. This strategic framework along with our efforts to improve productivity and profitability give us confidence in our Business Outlook for 2016.

**OPERATIONS**

The following tables set forth the percentage relationship to net sales of each line item of the consolidated statements of earnings, as well as the percentage change in dollar amounts from the prior year. This table should be read in conjunction with the following discussion and analysis and the consolidated financial statements, including the related notes to the consolidated financial statements.

| | | | Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year | Percentage Increase / (Decrease) in Dollar Amounts from Prior Year |
|---|---|---|---|---|
| | **2015** | **2014** | **2015 vs. 2014** | **2015 vs. 2014** |
| **Net sales** | **100.00%** | **100.00%** | **N/A** | **5.1 %** |
| **Gross margin** | **34.82** | **34.79** | **3** | **5.2** |
| Expenses: | | | | |
| Selling, general and administrative | 23.90 | 23.62 | 28 | 6.3 |
| Depreciation | 2.51 | 2.64 | (13) | — |
| Interest - net | 0.93 | 0.92 | 1 | 7.0 |
| **Total expenses** | **27.34** | **27.18** | **16** | **5.7** |
| **Pre-tax earnings** | **7.48** | **7.61** | **(13)** | **3.3** |
| Income tax provision | 3.17 | 2.81 | 36 | 18.6 |
| **Net earnings** | **4.31%** | **4.80%** | **(49)** | **(5.6)%** |
| **Adjusted EBIT margin [1]** | **9.31%** | **8.53%** | **78** | **14.8 %** |

| | | | Basis Point Increase / (Decrease) in Percentage of Net Sales from Prior Year | Percentage Increase / (Decrease) in Dollar Amounts from Prior Year |
|---|---|---|---|---|
| | **2014** | **2013** | **2014 vs. 2013** | **2014 vs. 2013** |
| **Net sales** | **100.00%** | **100.00%** | **N/A** | **5.3 %** |
| **Gross margin** | **34.79** | **34.59** | **20** | **5.9** |
| Expenses: | | | | |
| Selling, general and administrative | 23.62 | 24.08 | (46) | 3.2 |
| Depreciation | 2.64 | 2.74 | (10) | 1.6 |
| Interest - net | 0.92 | 0.89 | 3 | 8.3 |
| **Total expenses** | **27.18** | **27.71** | **(53)** | **3.2** |
| **Pre-tax earnings** | **7.61** | **6.88** | **73** | **16.4** |
| Income tax provision | 2.81 | 2.60 | 21 | 13.8 |
| **Net earnings** | **4.80%** | **4.28%** | **52** | **18.0 %** |
| **EBIT margin [1]** | **8.53%** | **7.77%** | **76** | **15.5 %** |

| Other Metrics | 2015 | 2014 | 2013 |
|---|---|---|---|
| Comparable sales increase [2] | 4.8% | 4.3% | 4.8% |
| Total customer transactions (in millions) | 878 | 857 | 828 |
| Average ticket [3] | $ 67.26 | $ 65.61 | $ 64.52 |
| **At end of year:** | | | |
| Number of stores | 1,857 | 1,840 | 1,832 |
| Sales floor square feet (in millions) | 202 | 201 | 200 |
| Average store size selling square feet (in thousands) [4] | 109 | 109 | 109 |
| Return on average assets [5, 8] | 7.8% | 8.2% | 6.9% |
| Return on average shareholders' equity [6] | 28.8% | 24.4% | 17.7% |
| Return on invested capital [7] | 14.1% | 13.9% | 11.5% |

[1] *EBIT margin, also referred to as operating margin, is defined as earnings before interest and taxes (EBIT) as a percentage of sales. EBIT margin for fiscal year 2015 was adjusted to exclude the negative 90 basis points impact of the non-cash impairment charge on the Australian joint venture with Woolworths (Adjusted EBIT margin). Adjusted EBIT is a non-GAAP financial measure. See below for additional information and a reconciliation to the most comparable GAAP measure.*

[2] *A comparable location is defined as a location that has been open longer than 13 months. A location that is identified for relocation is no longer considered comparable one month prior to its relocation. The relocated location must then remain open longer than 13 months to be considered comparable. A location we have decided to close is no longer considered comparable as of the beginning of the month in which we announce its closing. Acquired locations are included in the comparable sales calculation beginning in the first full month following the first anniversary of the date of the acquisition. Comparable sales include online sales, which did not have a meaningful impact for the periods presented.*

[3] *Average ticket is defined as net sales divided by the total number of customer transactions.*

[4] *Average store size selling square feet is defined as sales floor square feet divided by the number of stores open at the end of the period. The average Lowe's home improvement store has approximately 112,000 square feet of retail selling space, while the average Orchard store has approximately 37,000 square feet of retail selling space.*

[5] *Return on average assets is defined as net earnings divided by average total assets for the last five quarters.*

[6] *Return on average shareholders' equity is defined as net earnings divided by average shareholders' equity for the last five quarters.*

[7] *Return on invested capital is a non-GAAP financial measure. See below for additional information and a reconciliation to the most comparable GAAP measure.*

[8] *Fiscal years 2014 and 2013 have been adjusted as a result of the Company's retrospective adoption of ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs, and ASU 2015-17, Balance Sheet Classification of Deferred Taxes. The adoption of these accounting standards required reclassification of current deferred tax assets and liabilities to non-current, as well as reclassification of debt issuance costs from other assets to long-term debt, excluding current maturities.*

**Non-GAAP Financial Measures**

*Return on Invested Capital*

We believe Return on Invested Capital (ROIC) is a meaningful metric for investors because it measures how effectively the Company uses capital to generate profits.

We define ROIC as trailing four quarters' net operating profit after tax divided by the average of ending debt and equity for the last five quarters. Although ROIC is a common financial metric, numerous methods exist for calculating ROIC. Accordingly, the method used by our management to calculate ROIC may differ from the methods other companies use to calculate their ROIC. We encourage you to understand the methods used by another company to calculate its ROIC before comparing its ROIC to ours.

We consider return on average debt and equity to be the financial measure computed in accordance with generally accepted accounting principles that is the most directly comparable GAAP financial measure to ROIC. The difference between these two measures is that ROIC adjusts net earnings to exclude tax adjusted interest expense.

The calculation of ROIC, together with a reconciliation to the calculation of return on average debt and equity, the most comparable GAAP financial measure, is as follows:

| **Calculation of Return on Invested Capital** (In millions, except percentage data) | | **2015** | | **2014** | | **2013** |
|---|---|---|---|---|---|---|
| **Numerator** | | | | | | |
| Net earnings | $ | 2,546 | $ | 2,698 | $ | 2,286 |
| Plus: | | | | | | |
| Interest expense - net | | 552 | | 516 | | 476 |
| Provision for income taxes | | 1,873 | | 1,578 | | 1,387 |
| Earnings before interest and taxes | | 4,971 | | 4,792 | | 4,149 |
| Less: | | | | | | |
| Income tax adjustment [1] | | 2,058 | | 1,769 | | 1,567 |
| Net operating profit after tax | $ | 2,913 | $ | 3,024 | $ | 2,581 |
| Effective tax rate | | 42.4% | | 36.9% | | 37.8% |
| **Denominator** | | | | | | |
| Average debt and equity [2,3] | $ | 20,693 | $ | 21,744 | $ | 22,501 |
| **Return on invested capital [4]** | | **14.1%** | | **13.9%** | | **11.5%** |

| **Calculation of Return on Average Debt and Equity** | | **2015** | | **2014** | | **2013** |
|---|---|---|---|---|---|---|
| **Numerator** | | | | | | |
| Net earnings | $ | 2,546 | $ | 2,698 | $ | 2,286 |
| **Denominator** | | | | | | |
| Average debt and equity [2,3] | $ | 20,693 | $ | 21,744 | $ | 22,501 |
| **Return on average debt and equity** | | **12.3%** | | **12.4%** | | **10.2%** |

[1] *Income tax adjustment is defined as earnings before interest and taxes multiplied by the effective tax rate.*

[2] *Average debt and equity is defined as average debt, including current maturities and short-term borrowings, plus total equity for the last five quarters.*

[3] *Fiscal years 2014 and 2013 have been adjusted as a result of the Company's retrospective adoption of ASU 2015-03, Simplifying the Presentation of Debt Issuance Costs. The adoption of this accounting standard required reclassification of debt issuance costs from other assets to long-term debt, excluding current maturities.*

[4] *ROIC for fiscal year 2015 was negatively impacted by approximately 238 basis points due to the non-cash impairment charge on the Australian joint venture with Woolworths.*

*Adjusted Net Earnings, Adjusted EBIT, and Adjusted Diluted Earnings Per Share*

We have disclosed non-GAAP adjusted net earnings, adjusted EBIT, and adjusted diluted earnings per share, which exclude the impact of the $530 million non-cash impairment charge recognized during 2015 in connection with the Company's decision to exit its joint venture with Woolworths Limited in Australia. We believe these non-GAAP financial measures provide useful insight for investors in evaluating what management considers the Company's core financial performance. These measures are not in accordance with, or an alternative for, generally accepted accounting principles in the United States.

Adjusted net earnings, adjusted EBIT, and adjusted diluted earnings per share should be considered in addition to, not as a substitute for, net earnings and diluted earnings per share prepared in accordance with GAAP. The Company's methods of determining these non-GAAP financial measures may differ from the methods used by other companies for these or similar non-GAAP financial measures. Accordingly, these non-GAAP measures may not be comparable to the measures used by other companies.

The most comparable GAAP measures are net earnings and diluted earnings per share. The following provides a reconciliation of adjusted net earnings, adjusted EBIT, and adjusted diluted earnings per share to the most directly comparable GAAP financial measures:

| **Calculation of Adjusted Net Earnings, Adjusted EBIT, and Adjusted Diluted Earnings per Common Share** | | **2015** | |
|---|---|---|---|
| (In millions, except per share and percentage data) | | **Amount** | **% Sales** |
| **Net earnings, as reported** | **$** | **2,546** | **4.31%** |
| Non-cash impairment charge | | 530 | 0.90 |
| **Adjusted net earnings** | **$** | **3,076** | **5.21%** |
| Interest - net | | 552 | 0.93 |
| Income tax provision | | 1,873 | 3.17 |
| **Adjusted EBIT** | **$** | **5,501** | **9.31%** |
| | | | |
| **Diluted earnings per common share, as reported** | **$** | **2.73** | |
| Non-cash impairment charge | | 0.56 | |
| **Adjusted diluted earnings per common share** | **$** | **3.29** | |

**Fiscal 2015 Compared to Fiscal 2014**

*Net sales* – Net sales increased 5.1% to $59.1 billion in 2015. The increase in total sales was driven primarily by the comparable sales increase of 4.8% and new stores. The comparable sales increase of 4.8% in 2015 was driven by a 2.5% increase in comparable average ticket and a 2.2% increase in comparable customer transactions. Comparable sales during each quarter of the fiscal year, as reported, were 5.2% in the first quarter, 4.3% in the second quarter, 4.6% in the third quarter, and 5.2% in the fourth quarter.

All of our product categories experienced comparable sales increases for the year. During 2015, comparable sales were above the company average in the following product categories: Appliances, Outdoor Power Equipment, and Seasonal Living. Appliances experienced the strongest growth with a double digit increase in comparable sales as we further strengthened our brand offerings and breadth of assortment and continued to provide service advantages with next-day delivery and haul away. Within Outdoor Power Equipment, we drove strong performance in walk behind and riding mowers as well as pressure washers. The Outdoor Living Experience introduced last year drove comparable sales in our Seasonal Living category, where we continued to see strong sales in patio furniture, replacement cushions, and outdoor accessories. In addition, Tools & Hardware performed at approximately the overall company average driven by strong demand and continued improvement in both product assortment and brand relevance. Geographically, all of our 14 U.S. regions experienced increases in comparable store sales, as sales performance was well balanced across the country.

During the fourth quarter of 2015, we recorded comparable sales increases above the company average in Lumber & Building Materials, Appliances, Lawn & Garden, and Paint. We saw particular strength in outdoor project categories, led by Lumber & Building Materials and Lawn & Garden, as customers took advantage of mild weather to complete exterior projects such as roofs, fences, decks, and lawn care. Our landscape lighting experience also drove strong performance by providing inspiration and easy selection and installation for customers, while offering new product technologies such as LED. We achieved strong comparable sales increases in Appliances during the quarter through strengthened brand offerings and service advantages. Paint benefited from increased project activity, as well as growing awareness of our three-brand offering, providing customers with a full suite of top brands they can trust for their next paint project.

*Gross margin* – Gross margin of 34.82% for 2015 represented a three basis point increase from 2014 and was primarily driven by cost reductions associated with value improvement and product cost deflation, partially offset by negative impacts from targeted promotional activity and mix of products sold.

During the fourth quarter of 2015, gross margin of 34.66% was flat as a percentage of sales due to the same factors that impacted gross margin in the year.

*SG&A* – SG&A expense for 2015 deleveraged 28 basis points as a percentage of sales compared to 2014. This was primarily driven by 90 basis points of deleverage associated with an impairment charge recorded during the fourth quarter of 2015 related to the valuation of our one-third interest in the Australian joint venture with Woolworths Limited. This was partially offset by 16 basis points of leverage associated with operating salaries as we optimized payroll hours against customer traffic and 16

basis points of leverage in advertising expense due to more efficient and effective media mix compared to the prior year. We experienced eight basis points of leverage in employee insurance costs due to increased sales in the current year partially offset by additional costs associated with the Affordable Care Act. We also experienced eight basis points of leverage in utilities due to stronger sales as well as a decrease in rates and consumption. In addition, we experienced seven basis points of leverage in building and site repair due to a decrease in the number of repairs during the year and seven basis points of leverage in external labor due to completed projects and increased focus on use of internal resources across information technology projects.

During the fourth quarter of 2015, SG&A expense deleveraged 332 basis points as a percentage of sales due primarily to 401 basis points of deleverage associated with the Australian joint venture impairment charge partially offset by leverage in operating salaries, advertising expense, utilities, employee insurance, and certain other fixed costs. We experienced 25 basis points of leverage in operating salaries associated with optimization of store payroll hours and 20 basis points in advertising expense due to more efficient and effective media mix. We also experienced 12 basis points of leverage in utilities primarily the result of warmer weather and 12 basis points in employee insurance costs due to a reduction in the number and severity of claims. Certain other fixed costs also leveraged as a result of sales growth.

*Depreciation* – Depreciation expense leveraged 13 basis points for 2015 compared to 2014 primarily due to the increase in sales. Property, less accumulated depreciation, decreased to $19.6 billion at January 29, 2016 compared to $20.0 billion at January 30, 2015. At January 29, 2016 and January 30, 2015, we owned 86% of our stores, which included stores on leased land.

*Interest – Net* – Net interest expense is comprised of the following:

| (In millions) | | 2015 | | 2014 |
|---|---|---|---|---|
| Interest expense, net of amount capitalized | $ | 548 | $ | 515 |
| Amortization of original issue discount and loan costs | | 8 | | 7 |
| Interest income | | (4) | | (6) |
| **Interest - net** | **$** | **552** | **$** | **516** |

Net interest expense increased primarily as a result of the issuance of $1.75 billion and $1.25 billion of unsecured notes in September 2015 and 2014, respectively. This was partially offset by the repayment of $500 million unsecured notes on October 15, 2015.

*Income tax provision* - Our effective income tax rate was 42.4% in 2015 compared to 36.9% in 2014. During 2015, the Company recorded a deferred tax asset related to losses associated with the joint venture investment in Australia with Woolworths Limited. The deferred tax asset associated with these losses was offset with the establishment of a full valuation allowance due to the fact the benefit of these losses can only be realized to the extent the Company has available capital gains for offset, and no present or future capital gains have been identified through which this deferred tax asset can be realized. Excluding the equity losses and related deferred tax asset would have resulted in an effective income tax rate of 38.2%. The effective tax rate in 2014 benefited from the favorable settlement of certain federal tax matters.

**Fiscal 2014 Compared to Fiscal 2013**

*Net sales* – Net sales increased 5.3% to $56.2 billion in 2014. The increase in total sales was driven primarily by the comparable sales increase of 4.3%, the acquisition of Orchard, and new stores. The comparable sales increase of 4.3% in 2014 was driven by a 2.4% increase in comparable average ticket and a 1.8% increase in comparable customer transactions. Comparable sales increased during each quarter of the fiscal year as we reported 0.9% in the first quarter, 4.4% in the second quarter, 5.1% in the third quarter, and 7.3% in the fourth quarter.

All of our product categories experienced comparable sales increases for the year. During 2014, we experienced comparable sales above the company average in the following product categories: Appliances, Millwork, Tools & Hardware, Fashion Fixtures, and Outdoor Power Equipment. Targeted promotions coupled with the expansion of our Project Specialist programs drove comparable sales increases, especially within Appliances, Millwork, and Fashion Fixtures, as we continued to benefit from customers' increasing interest in refreshing both the interior and exterior of their homes. Within Tools & Hardware, our enhanced Sales & Operations Planning process helped us drive strong performance in power and pneumatic tools. We drove comparable sales within Outdoor Power Equipment as we were prepared to meet strong demand for mowers, trimmers, and snow blowers. In addition, Flooring performed at approximately the overall company average. Geographically, 13 of the 14 U.S. regions experienced increases in comparable store sales, as sales performance was well balanced across the country.

*Gross margin* – Gross margin of 34.79% for 2014 represented a 20 basis point increase from 2013 and was primarily driven by cost reductions associated with our Value Improvement initiative, which consisted of improved line review and product reset processes to better position us to meet customers' product needs and drive better inventory productivity.

During the fourth quarter of 2014, gross margin decreased one basis point as a percentage of sales. Gross margin was negatively impacted by mix of products sold and price actions on specific categories, partially offset by our Value Improvement program and better seasonal sell-through.

*SG&A* – SG&A expense for 2014 leveraged 46 basis points as a percentage of sales compared to 2013. This was primarily driven by 21 basis points of leverage associated with operating salaries as we optimized payroll hours against customer traffic. We also experienced 16 basis points of leverage associated with incentive compensation due to lower attainment levels compared to the prior year and seven basis points of leverage in property taxes due to favorability in property valuations recognized in the current year. In addition, we experienced six basis points of leverage in advertising expense due to increased sales and five basis points of leverage in utilities due to decreased consumption due to favorable weather experienced in the current year. These were partially offset by 23 basis points of deleverage in employee insurance costs, due to increased claims as well as additional costs associated with the Affordable Care Act.

SG&A expense during the fourth quarter leveraged 88 basis points due primarily to long-lived asset impairments recorded in the prior year, as well as leverage in operating salaries, and property taxes.

*Depreciation* – Depreciation expense leveraged 10 basis points for 2014 compared to 2013 primarily due to the increase in sales. Property, less accumulated depreciation, decreased to $20.0 billion at January 30, 2015 compared to $20.8 billion at January 31, 2014. At January 30, 2015 and January 31, 2014, we owned 86% of our stores, which included stores on leased land.

*Interest – Net* – Net interest expense is comprised of the following:

| (In millions) | | 2014 | | 2013 |
|---|---|---|---|---|
| Interest expense, net of amount capitalized | $ | 515 | $ | 474 |
| Amortization of original issue discount and loan costs | | 7 | | 6 |
| Interest income | | (6) | | (4) |
| **Interest - net** | **$** | **516** | **$** | **476** |

Net interest expense increased primarily as a result of the issuance of $1.25 billion and $1.0 billion of unsecured notes in September 2014 and 2013, respectively.

*Income tax provision* – Our effective income tax rate was 36.9% in 2014 compared to 37.8% in 2013. The lower effective tax rate in 2014 was the result of the favorable settlement of certain federal tax matters during the year.

**LOWE'S BUSINESS OUTLOOK**

Fiscal year 2016 will consist of 53 weeks, whereas fiscal year 2015 consisted of 52 weeks. As of February 24, 2016, the date of our fourth quarter 2015 earnings release, we expected total sales in 2016 to increase approximately 6%, including the 53rd week. The 53rd week is expected to increase total sales by approximately 1.5%. We expected comparable sales to increase approximately 4%. We expected to open approximately 45 home improvement and hardware stores during 2016. In addition, earnings before interest and taxes as a percentage of sales (operating margin) were expected to increase 80 to 90 basis points,[1] and the effective tax rate was expected to be approximately 38.1%. Diluted earnings per share of approximately $4.00 were expected for the fiscal year ending February 3, 2017. Our guidance assumed approximately $3.5 billion in share repurchases during 2016.

[1] *Operating margin growth excludes the impact of the non-cash impairment charge on the Australian joint venture. The non-cash impairment charge negatively impacted operating margin by approximately 90 basis points in fiscal year 2015.*

## FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

### Cash Flows

The following table summarizes our cash flow activities for each of the three most recent fiscal years ended January 29, 2016:

| (In millions) | 2015 | 2014 | 2013 |
|---|---|---|---|
| Net cash provided by (used in): | | | |
| Operating activities | 4,784 | 4,929 | 4,111 |
| Investing activities | (1,343) | (1,088) | (1,286) |
| Financing activities | (3,493) | (3,761) | (2,969) |

Cash flows from operating activities continued to provide the primary source of our liquidity. The decrease in net cash provided by operating activities for 2015 versus 2014 was primarily driven by changes in working capital. The increase in net cash provided by operating activities for 2014 versus 2013 was primarily driven by increased net earnings, as well as changes in working capital.

The increase in net cash used in investing activities for 2015 versus 2014 was primarily driven by increased capital expenditures and purchases of investments, net of sales and maturities, partially offset by decreased contributions to equity method investments. The decrease in net cash used in investing activities for 2014 versus 2013 was primarily driven by the acquisition of Orchard in 2013 and decreased capital expenditures, partially offset by increased contributions to equity method investments in 2014.

The decrease in net cash used in financing activities for 2015 versus 2014 was driven primarily by increased proceeds from the issuance of long-term debt and net repayments of short-term borrowings in the prior year versus net borrowings in the current year. This was partially offset by increased repayments of long-term debt and increased cash dividend payments in the current year. The increase in net cash used in financing activities for 2014 versus 2013 was driven primarily by 2014 repayments of 2013 short-term borrowings.

### Sources of Liquidity

In addition to our cash flows from operations, liquidity is provided by our short-term borrowing facilities. We have 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. We were 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 and no outstanding borrowings or letters of credit under the credit facility.

We expect to continue to have access to the capital markets on both short-term and long-term bases when needed for liquidity purposes by issuing commercial paper or new long-term debt. The availability and the borrowing costs of these funds could be adversely affected, however, by a downgrade of our debt ratings or a deterioration of certain financial ratios. The table below reflects our debt ratings by Standard & Poor's (S&P) and Moody's as of March 28, 2016, which we are disclosing to enhance understanding of our sources of liquidity and the effect of our ratings on our cost of funds. Although we currently do not expect a downgrade in our debt ratings, our commercial paper and senior debt ratings may be subject to revision or withdrawal at any time by the assigning rating organization, and each rating should be evaluated independently of any other rating.

| Debt Ratings | S&P | Moody's |
|---|---|---|
| Commercial Paper | A-2 | P-2 |
| Senior Debt | A- | A3 |
| **Outlook** | **Stable** | **Stable** |

We believe that net cash provided by operating and financing activities will be adequate not only for our operating requirements, but also for investments in our existing stores, investments in information technology, expansion plans,

acquisitions, if any, and to return cash to shareholders through both dividends and share repurchases over the next 12 months. There are no provisions in any agreements that would require early cash settlement of existing debt or leases as a result of a downgrade in our debt rating or a decrease in our stock price. In addition, we do not believe it will be necessary to repatriate cash and cash equivalents and short-term investments held in foreign affiliates to fund domestic operations. Unrepatriated cash was not significant for all periods presented.

**Cash Requirements**

*Capital expenditures*
Our fiscal 2016 capital forecast is approximately $1.5 billion. Our expansion plans are expected to account for approximately 45% of planned net cash outflow. Investments in our existing stores, including investments in remerchandising, store equipment, and technology, are expected to account for approximately 30% of net cash outflow. Approximately 20% of planned net cash outflow is for corporate programs, including investments to enhance the customer experience, as well as enhancements to the corporate infrastructure. Other planned capital expenditures, accounting for approximately 5% of planned net cash outflow, are for investments in our existing distribution network.

On February 2, 2016, we entered into a definitive agreement to acquire all of the issued and outstanding common shares of 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. 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. We anticipate financing the transaction through the debt capital markets. In addition, we have entered into an option to purchase Canadian dollars at a strike price of 1.3933 expiring November 1, 2016. The transaction is expected to close in fiscal year 2016.

*Debt and capital*
Unsecured debt of $475 million and $550 million is scheduled to mature in April and October 2016, respectively. See Note 6 to the consolidated financial statements included herein for additional information regarding long-term debt, including fiscal year 2015 financing activities.

We have an ongoing share repurchase program, authorized by the Company's Board of Directors, 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. As of January 29, 2016, we had $3.6 billion remaining available under our share repurchase program with no expiration date. In fiscal 2016, we expect to repurchase shares totaling $3.5 billion through purchases made from time to time either in the open market or through private off market transactions in accordance with SEC regulations. Our share repurchase assumption is not expected to be affected by the RONA acquisition. See Note 7 to the consolidated financial statements included herein for additional information regarding share repurchases.

Dividends declared during fiscal 2015 totaled $991 million. Our dividend payment dates are established such that dividends are paid in the quarter immediately following the quarter in which they are declared. The dividend declared in the fourth quarter of 2015 was paid in fiscal 2016 and totaled $255 million.

Our ratio of debt to equity plus debt was 62.3% and 53.3% as of January 29, 2016, and January 30, 2015, respectively.

**OFF-BALANCE SHEET ARRANGEMENTS**

Other than in connection with executing operating leases, we do not have any off-balance sheet financing that has, or is reasonably likely to have, a current or future material effect on our financial condition, cash flows, results of operations, liquidity, capital expenditures or capital resources.

**CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS**

The following table summarizes our significant contractual obligations at January 29, 2016:

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** (in millions) | **Total** | **Less Than 1 Year** | **1-3 Years** | **4-5 Years** | **After 5 Years** |
| Long-term debt (principal amounts, excluding discount and debt issuance costs) | $ 12,190 | $ 1,028 | $ 1,002 | $ 951 | $ 9,209 |
| Long-term debt (interest payments) | 8,236 | 522 | 946 | 905 | 5,863 |
| Capitalized lease obligations [1,2] | 991 | 76 | 127 | 118 | 670 |
| Operating leases [1] | 5,394 | 494 | 959 | 855 | 3,086 |
| Purchase obligations [3] | 1,046 | 718 | 173 | 111 | 44 |
| **Total contractual obligations** | **$ 27,857** | **$ 2,838** | **$ 3,207** | **$ 2,940** | **$ 18,872** |

| | Amount of Commitment Expiration by Period | | | | |
|---|---|---|---|---|---|
| **Commercial Commitments** (in millions) | **Total** | **Less Than 1 Year** | **1-3 Years** | **4-5 Years** | **After 5 Years** |
| Letters of Credit [4] | $ 67 | $ 66 | $ 1 | $ — | $ — |

[1] *Amounts do not include taxes, common area maintenance, insurance, or contingent rent because these amounts have historically been insignificant.*

[2] *Amounts include imputed interest and residual values.*

[3] *Purchase obligations include agreements to purchase goods or services that are enforceable, are legally binding, and specify all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase obligations include firm commitments related to certain marketing and information technology programs, as well as purchases of merchandise inventory.*

[4] *Letters of credit are issued primarily for insurance and construction contracts.*

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The preparation of the consolidated financial statements and notes to consolidated financial statements presented in this Form 10-K requires us to make estimates that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosures of contingent assets and liabilities. We base 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.

Our significant accounting policies are described in Note 1 to the consolidated financial statements. We believe that the following accounting policies affect the most significant estimates and management judgments used in preparing the consolidated financial statements.

**Merchandise Inventory**

*Description*
We record an obsolete inventory reserve for the anticipated loss associated with selling inventories below cost. This reserve is based on our current knowledge with respect to inventory levels, sales trends and historical experience. During 2015, our reserve decreased approximately $6 million to $46 million as of January 29, 2016.

We also record an inventory reserve for the estimated shrinkage between physical inventories. This reserve is based primarily on actual shrinkage results from previous physical inventories. During 2015, the inventory shrinkage reserve increased approximately $9 million to $171 million as of January 29, 2016.

In addition, we receive 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 that we incurred to sell the vendor's product. Therefore, we treat these funds as a reduction in the cost of inventory as the amounts are accrued, and recognize these funds 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.

*Judgments and uncertainties involved in the estimate*
We do not believe that our merchandise inventories are subject to significant risk of obsolescence in the near term, and we have the ability to adjust purchasing practices based on anticipated sales trends and general economic conditions. However, changes in consumer purchasing patterns or a deterioration in product quality could result in the need for additional reserves. Likewise, changes in the estimated shrink reserve may be necessary, based on the timing and results of physical inventories. We also apply judgment in the determination of levels of obsolete inventory and assumptions about net realizable value.

For vendor funds, we develop accrual rates based on the provisions of the agreements in place. Due to the complexity and diversity of the individual vendor agreements, we perform analyses and review historical purchase trends and volumes throughout the year, adjust accrual rates as appropriate and confirm 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 purchase volumes, especially in the case of programs that provide for increased funding when graduated purchase volumes are met.

*Effect if actual results differ from assumptions*
We have not made any material changes in the methodology used to establish our inventory valuation or the related reserves for obsolete inventory or inventory shrinkage during the past three fiscal years. We believe that we have sufficient current and historical knowledge to record reasonable estimates for both of these inventory reserves. However, it is possible that actual results could differ from recorded reserves. A 10% change in either the amount of products considered obsolete or the weighted average estimated loss rate used in the calculation of our obsolete inventory reserve would have affected net earnings by approximately $2 million for 2015. A 10% change in the estimated shrinkage rate included in the calculation of our inventory shrinkage reserve would have affected net earnings by approximately $10 million for 2015.

We have not made any material changes in the methodology used to recognize vendor funds during the past three fiscal years. If actual results are not consistent with the assumptions and estimates used, we could be exposed to additional adjustments that could positively or negatively impact gross margin and inventory. However, substantially all receivables associated with these activities do not require subjective long-term estimates because they are collected within the following fiscal year. Adjustments to gross margin and inventory in the following fiscal year have historically not been material.

**Equity Method Investments**

*Description*
We use the equity method to account for investments in companies if the investment provides the ability to exercise significant influence, but not control, over operating and financial policies of the investee. Our proportionate share of the net income or loss of these companies is included in consolidated net earnings. Each of the Company's equity method investments is subject to a review for impairment if, and when, circumstances indicate that the fair value of our investment could be less than the carrying value. If the results of our review indicate an other than temporary decline in the carrying value of our investment, the Company would write down the investment to its estimated fair value.

*Judgments and uncertainties involved in the estimate*
Our impairment evaluations for equity method investments require us to apply judgment in determining whether a decrease in value that is other than temporary has occurred. If we need to assess the recoverability of our equity method investments, we will make assumptions regarding estimated future cash flows of those investments. These calculations require us to apply judgments, including assumptions of future performance, based on business plans and forecasts, recent economic and business trends, and competitive conditions.

*Effect if actual results differ from assumptions*
In the fourth quarter of fiscal year 2015, we made the decision to exit our Australian joint venture investment with Woolworths Limited (Woolworths) and recorded a $530 million impairment of our investment due to a determination that there was a decrease in value that was other than temporary. We own 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 our decision to exit, Woolworths will be required to purchase Lowe's one-third share in the joint venture at an agreed upon fair value as of January 18, 2016, the date of our notification of our intention to exit. The process for the two parties agreeing on fair value is prescribed in the Joint Venture Agreement. Finalization of the purchase price for Lowe's interest in the joint venture and completion of the sale is expected to occur in 2016. The $530 million non-cash impairment charge, which includes the cumulative impact of the strengthening U.S. dollar over the life of the investment,

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 assumptions that most significantly affect the fair value determination include the continuation as a going concern, projected revenues, projected margin rates and the discount rate. Further changes in this estimate are possible as the parties proceed through the final stages of the valuation process as defined in the Joint Venture Agreement. A 10% change in our current estimate of fair value of the joint venture would have affected net earnings by approximately $39 million for 2015.

**Long-Lived Asset Impairment**

*Description*
We review the carrying amounts of locations whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. When evaluating locations for impairment, our asset group is at an individual location level, as that is the lowest level for which cash flows are identifiable. Cash flows for individual locations do not include an allocation of corporate overhead.

We evaluate locations for triggering events relating to long-lived asset impairment on a quarterly basis to determine when a location's asset carrying values may not be recoverable. For operating locations, our primary indicator that asset carrying values may not be recoverable is consistently negative cash flow for a 12-month period for those locations that have been open in the same location for a sufficient period of time to allow for meaningful analysis of ongoing operating results. Management also monitors other factors when evaluating operating locations for impairment, including individual locations' execution of their operating plans and local market conditions, including incursion, which is the opening of either other Lowe's locations or those of a direct competitor within the same market. We also consider there to be a triggering event when there is a current expectation that it is more likely than not that a given location will be closed significantly before the end of its previously estimated useful life.

A potential impairment has occurred if projected future undiscounted cash flows expected to result from the use and eventual disposition of the location's assets are less than the carrying amount of the assets. When determining the stream of projected future cash flows associated with an individual operating location, management makes assumptions, incorporating local market conditions, about key store variables including sales growth rates, gross margin and controllable expenses, such as store payroll and occupancy expense, as well as asset residual values or lease rates. An impairment loss is recognized when the carrying amount of the operating location is not recoverable and exceeds its fair value.

We use an income approach to determine the fair value of our individual operating locations, which requires discounting projected future cash flows. This involves making assumptions regarding both a location's future cash flows, as described above, and an appropriate discount rate to determine the present value of those future cash flows. We discount our cash flow estimates at a rate commensurate with the risk that selected market participants would assign to the cash flows. The selected market participants represent a group of other retailers with a market footprint similar in size to ours.

*Judgments and uncertainties involved in the estimate*
Our impairment evaluations for long-lived assets require us to apply judgment in determining whether a triggering event has occurred, including the evaluation of whether it is more likely than not that a location will be closed significantly before the end of its previously estimated useful life. Our impairment loss calculations require us to apply judgment in estimating expected future cash flows, including estimated sales, margin, and controllable expenses, assumptions about market performance for operating locations, and estimated selling prices or lease rates for locations identified for closure. We also apply judgment in estimating asset fair values, including the selection of an appropriate discount rate for fair values determined using an income approach.

*Effect if actual results differ from assumptions*
During 2015, two operating locations experienced a triggering event, and both locations were determined to be impaired. We recorded impairment losses related to these two operating locations of $8 million during 2015, compared to impairment losses of $26 million related to three operating locations impaired during 2014.

We have not made any material changes in the methodology used to estimate the future cash flows of operating locations or locations identified for closure during the past three fiscal years. If the actual results are not consistent with the assumptions and judgments we have made in determining whether it is more likely than not that a location will be closed significantly before the end of its useful life or in estimating future cash flows and determining asset fair values, our actual impairment losses could vary positively or negatively from our estimated impairment losses.

**Self-Insurance**

*Description*
We are self-insured for certain losses relating to workers' compensation, automobile, general and product liability, extended protection plan, and certain medical and dental claims. Our self-insured retention or deductible, as applicable, is limited to $2 million per occurrence involving workers' compensation, $5 million per occurrence involving general or product liability, and $10 million per occurrence involving automobile. We do not have any insurance coverage for self-insured extended protection plan or medical and dental claims. Self-insurance claims filed and claims incurred but not reported are accrued based upon our estimates of the discounted ultimate cost for self-insured claims incurred using actuarial assumptions followed in the insurance industry and historical experience. During 2015, our self-insurance liability decreased approximately $22 million to $883 million as of January 29, 2016.

*Judgments and uncertainties involved in the estimate*
These estimates are subject to changes in the regulatory environment, utilized discount rate, projected exposures including payroll, sales and vehicle units, as well as the frequency, lag and severity of claims.

*Effect if actual results differ from assumptions*
We have not made any material changes in the methodology used to establish our self-insurance liability during the past three fiscal years. Although we believe that we have the ability to reasonably estimate losses related to claims, it is possible that actual results could differ from recorded self-insurance liabilities. A 10% change in our self-insurance liability would have affected net earnings by approximately $54 million for 2015. A 100 basis point change in our discount rate would have affected net earnings by approximately $18 million for 2015.

**Revenue Recognition**

*Description*
See Note 1 to the consolidated financial statements for a discussion of our revenue recognition policies. The following accounting estimates relating to revenue recognition require management to make assumptions and apply judgment regarding the effects of future events that cannot be determined with certainty.

We sell separately-priced extended protection plan contracts under a Lowe's-branded program for which the Company is ultimately self-insured. The Company recognizes revenues 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. The Company consistently groups and evaluates extended protection plan contracts based on the characteristics of the underlying products and the coverage provided in order to monitor for expected losses. A loss on the overall contract would be recognized if the expected costs of performing services under the contracts exceeded the amount of unamortized acquisition costs and related deferred revenue associated with the contracts. Deferred revenues associated with the extended protection plan contracts decreased $1 million to $729 million as of January 29, 2016.

We defer revenue and cost of sales associated with settled transactions for which customers have not yet taken possession of merchandise or for which installation has not yet been completed. Revenue is deferred based on the actual amounts received. We use historical gross margin rates to estimate the adjustment to cost of sales for these transactions. During 2015, deferred revenues associated with these transactions increased $74 million to $619 million as of January 29, 2016.

*Judgments and uncertainties involved in the estimate*
For extended protection plans, there is judgment inherent in our evaluation of expected losses as a result of our methodology for grouping and evaluating extended protection plan contracts and from the actuarial determination of the estimated cost of the contracts. There is also judgment inherent in our determination of the recognition pattern of costs of performing services under these contracts.

For the deferral of revenue and cost of sales associated with transactions for which customers have not yet taken possession of merchandise or for which installation has not yet been completed, there is judgment inherent in our estimates of gross margin rates.

*Effect if actual results differ from assumptions*
We have not made any material changes in the methodology used to recognize revenue on our extended protection plan contracts during the past three fiscal years. We currently do not anticipate incurring any overall contract losses on our extended protection plan contracts. Although we believe that we have the ability to adequately monitor and estimate expected losses

under the extended protection plan contracts, it is possible that actual results could differ from our estimates. In addition, if future evidence indicates that the costs of performing services under these contracts are incurred on other than a straight-line basis, the timing of revenue recognition under these contracts could change. A 10% change in the amount of revenue recognized in 2015 under these contracts would have affected net earnings by approximately $22 million.

We have not made any material changes in the methodology used to reverse net sales and cost of sales related to amounts received for which customers have not yet taken possession of merchandise or for which installation has not yet been completed. We believe we have sufficient current and historical knowledge to record reasonable estimates related to the impact to cost of sales for these transactions. However, if actual results are not consistent with our estimates or assumptions, we may incur additional income or expense. A 10% change in the estimate of the gross margin rates applied to these transactions would have affected net earnings by approximately $10 million in 2015.

**DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS**

We speak throughout this Annual Report on Form 10-K in forward-looking statements about our future, but particularly in "Management's Discussion and Analysis of Financial Condition and Results of Operations". The words "believe," "expect," "will," "should," "suggest", and other similar expressions are intended to identify those forward-looking statements. While we believe our expectations are reasonable, they are not guarantees of future performance. Our actual results could differ substantially from our expectations.

For a detailed description of the risks and uncertainties that we are exposed to, you should read the "Risk Factors" included elsewhere in this Annual Report on Form 10-K to the United States Securities and Exchange Commission. All forward-looking statements speak only as of the date of this report or, in the case of any document incorporated by reference, the date of that document. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are qualified by the cautionary statements in this section and in the "Risk Factors" included elsewhere in this Annual Report on Form 10-K. We do not undertake any obligation to update or publicly release any revisions to forward-looking statements to reflect events, circumstances or changes in expectations after the date of this report.

**Item 7A - Quantitative and Qualitative Disclosures about Market Risk**

In addition to the risks inherent in our operations, we are exposed to certain market risks, including changes in interest rates, commodity prices and foreign currency exchange rates.

**Interest Rate Risk**

Fluctuations in interest rates do not have a material impact on our financial condition and results of operations because our long-term debt is carried at amortized cost and consists primarily of fixed-rate instruments. Therefore, providing quantitative information about interest rate risk is not meaningful for our financial instruments.

**Commodity Price Risk**

We purchase certain commodity products that are subject to price volatility caused by factors beyond our control. We believe that the price volatility of these products is partially mitigated by our ability to adjust selling prices. The selling prices of these commodity products are influenced, in part, by the market price we pay, which is determined by industry supply and demand.

**Foreign Currency Exchange Rate Risk**

Although we have international operating entities, our exposure to foreign currency exchange rate fluctuations is not material to our financial condition and results of operations.

**Item 8 - Financial Statements and Supplementary Data**

**MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Management of Lowe's Companies, Inc. and its subsidiaries is responsible for establishing and maintaining adequate internal control over financial reporting (Internal Control) as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934, as amended. Our Internal Control was designed to provide reasonable assurance to our management and the Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of published financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention or overriding of controls. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to the reliability of financial reporting and financial statement preparation and presentation. Further, because of changes in conditions, the effectiveness may vary over time.

Our management, with the participation of the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our Internal Control as of January 29, 2016. In evaluating our Internal Control, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control—Integrated Framework (2013). Based on our management's assessment, we have concluded that, as of January 29, 2016, our Internal Control is effective.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the financial statements contained in this report, was engaged to audit our Internal Control. Their report appears on page 35.

**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 - $.50 par value; | | | | | |
| Shares issued and outstanding | | | | | |
| January 29, 2016 | 910 | | | | |
| January 30, 2015 | 960 | 455 | 1.5 | 480 | 1.5 |
| Capital in excess of par value | | — | — | — | — |
| Retained earnings | | 7,593 | 24.3 | 9,591 | 30.2 |
| Accumulated other comprehensive loss | | (394) | (1.3) | (103) | (0.3) |
| **Total shareholders' equity** | | **7,654** | **24.5** | **9,968** | **31.4** |
| **Total liabilities and shareholders' equity** | | **$ 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)

| | Common Stock | | Capital in Excess of Par Value | Retained Earnings | Accumulated Other Comprehensive Income/(Loss) | Total Shareholders' Equity |
|---|---|---|---|---|---|---|
| | Shares | Amount | | | | |
| **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:

**Cost of Sales**

- Total cost of products sold, including:
  - 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.

**Selling, General and Administrative**

- 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.

| | | Fair Value Measurements at | |
|---|---|---|---|
| (In millions) | **Measurement Level** | **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*

| | January 29, 2016 | | January 30, 2015 | |
|---|---|---|---|---|
| (In millions) | 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:

| | January 29, 2016 | | January 30, 2015 | |
|---|---|---|---|---|
| (In millions) | 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:

| | 2015 | | 2014 | |
|---|---|---|---|---|
| (In millions) | 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)<br>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:

| | 2015 | | 2014 [1] | | 2013 [1] | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | 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.

## SUPPLEMENTARY DATA

**Selected Quarterly Data (UNAUDITED)**

The following table summarizes the quarterly consolidated results of operations for 2015 and 2014:

| | 2015 | | | |
|---|---|---|---|---|
| (In millions, except per share data) | First | Second | Third | Fourth |
| Net sales | $ 14,129 | $ 17,348 | $ 14,360 | $ 13,236 |
| Gross margin | 5,012 | 5,981 | 4,990 | 4,588 |
| Net earnings | 673 | 1,126 | 736 | 11 [1] |
| Basic earnings per common share | 0.70 | 1.20 | 0.80 | 0.01 |
| Diluted earnings per common share | $ 0.70 | $ 1.20 | $ 0.80 | $ 0.01 |

| | 2014 | | | |
|---|---|---|---|---|
| (In millions, except per share data) | First | Second | Third | Fourth |
| Net sales | $ 13,403 | $ 16,599 | $ 13,681 | $ 12,540 |
| Gross margin | 4,758 | 5,735 | 4,718 | 4,346 |
| Net earnings | 624 | 1,039 | 585 | 450 |
| Basic earnings per common share | 0.61 | 1.04 | 0.59 | 0.46 |
| Diluted earnings per common share | $ 0.61 | $ 1.04 | $ 0.59 | $ 0.46 |

[1] *During the fourth quarter, the Company decided to exit its Australian joint venture investment with Woolworths and recorded a $530 million impairment of its equity method investment due to the determination that there was a decrease in value that was other than temporary.*

**Item 9 - Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

**Item 9A - Controls and Procedures**

The Company's management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's "disclosure controls and procedures", (as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended, (the Exchange Act)). Based upon their evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered by this report, the Company's disclosure controls and procedures were effective for the purpose of ensuring that the information required to be disclosed in the reports that the Company files or submits under the Exchange Act with the Securities and Exchange Commission (the SEC) (1) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and (2) is accumulated and communicated to the Company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Management's report on internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Exchange Act) and the report of Deloitte & Touche LLP, the Company's independent registered public accounting firm, are included in Item 8 of this Annual Report on Form 10-K.

In addition, no change in the Company's internal control over financial reporting occurred during the fiscal fourth quarter ended January 29, 2016 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

**Item 9B - Other Information**

None.

## Part III

### Item 10 - Directors, Executive Officers and Corporate Governance

Information required by this item is furnished by incorporation by reference to all information under the captions “Shareholder Engagement - Proxy Access”, “Proposal 1: Election of Directors”, “Information About the Board of Directors and Committees of the Board”, “Section 16(a) Beneficial Ownership Reporting Compliance”, and “Additional Information - Shareholder Proposals for the 2017 Annual Meeting” in the definitive Proxy Statement for the 2016 annual meeting of shareholders, which will be filed with the SEC within 120 days after the fiscal year ended January 29, 2016 (the Proxy Statement). The information required by this item with respect to our executive officers appears in Part I of this Annual Report on Form 10-K under the caption, “Executive Officers and Certain Significant Employees of the Registrant”.

We have adopted a written code of business conduct and ethics, which is intended to qualify as a “code of ethics” within the meaning of Item 406 of Regulations S-K of the Exchange Act, which we refer to as the Lowe’s Code of Business Conduct and Ethics (the Code). The Code applies to all employees of the Company, including our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions. The Code is designed to ensure that the Company’s business is conducted in a legal and ethical manner. The Code covers all areas of professional conduct, including compliance with laws and regulations, conflicts of interest, fair dealing among customers and suppliers, corporate opportunity, confidential information, insider trading, employee relations, and accounting complaints. The full text of the Code can be found on our website at www.Lowes.com, under the “About Lowe’s”, “Investors”, and “Governance - Code of Business Conduct and Ethics” captions. You can also obtain a copy of the complete Code by contacting Investor Relations at 1-800-813-7613.

We will disclose information pertaining to amendments or waivers to provisions of the Code that apply to our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions and that relate to any element of the Code enumerated in the SEC rules and regulations by posting this information on our website at www.Lowes.com. The information on our website is not a part of this Annual Report on Form 10-K and is not incorporated by reference in this report or any of our other filings with the SEC.

### Item 11 - Executive Compensation

Information required by this item is furnished by incorporation by reference to all information under the captions “Information About the Board of Directors and Committees of the Board – Compensation of Directors”, “Compensation Discussion and Analysis”, and “Compensation Committee Report” in the Proxy Statement.

### Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

Information required by this item is furnished by incorporation by reference to all information under the captions “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” in the Proxy Statement.

### Item 13 - Certain Relationships and Related Transactions, and Director Independence

Information required by this item is furnished by incorporation by reference to all information under the captions “Information About the Board of Directors and Committees of the Board – Director Independence” and “Related Person Transactions” in the Proxy Statement.

### Item 14 - Principal Accountant Fees and Services

Information required by this item is furnished by incorporation by reference to all information under the caption “Audit Matters – Fees Paid to the Independent Registered Public Accounting Firm” in the Proxy Statement.

## Part IV

**Item 15 – Exhibits and Financial Statement Schedules**

**a) 1. Financial Statements**

See the following items and page numbers appearing in Item 8 of this Annual Report on Form 10-K:

**2. Financial Statement Schedule**

**SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES**

| (In Millions) | Balance at beginning of period | Charges to costs and expenses | Deductions | Balance at end of period |
|---|---|---|---|---|
| **January 29, 2016:** | | | | |
| Reserve for loss on obsolete inventory | $ 52 | $ — | $ (6) [1] | $ 46 |
| Reserve for inventory shrinkage | 162 | 345 | (336) [2] | 171 |
| Reserve for sales returns | 65 | 1 [3] | — | 66 |
| Deferred tax valuation allowance | 170 | 277 [4] | — | 447 |
| Self-insurance liabilities | 905 | 1,357 | (1,379) [5] | 883 |
| Reserve for exit activities | 53 | 34 | (20) [6] | 67 |
| **January 30, 2015:** | | | | |
| Reserve for loss on obsolete inventory | $ 68 | $ — | $ (16) [1] | $ 52 |
| Reserve for inventory shrinkage | 158 | 326 | (322) [2] | 162 |
| Reserve for sales returns | 58 | 7 [3] | — | 65 |
| Deferred tax valuation allowance | 164 | 6 [4] | — | 170 |
| Self-insurance liabilities | 904 | 1,323 | (1,322) [5] | 905 |
| Reserve for exit activities | 54 | 14 | (15) [6] | 53 |
| **January 31, 2014:** | | | | |
| Reserve for loss on obsolete inventory | $ 57 | $ 11 [1] | $ — | $ 68 |
| Reserve for inventory shrinkage | 142 | 325 | (309) [2] | 158 |
| Reserve for sales returns | 59 | — | (1) [3] | 58 |
| Deferred tax valuation allowance | 142 | 22 [4] | — | 164 |
| Self-insurance liabilities | 899 | 1,164 | (1,159) [5] | 904 |
| Reserve for exit activities | 75 | 11 | (32) [6] | 54 |

1 *Represents the net increase/(decrease) in the required reserve based on the Company's evaluation of obsolete inventory.*

2 *Represents the actual inventory shrinkage experienced at the time of physical inventories.*

3 *Represents the net increase/(decrease) in the required reserve based on the Company's evaluation of anticipated merchandise returns.*

4 *Represents an increase in the required reserve based on the Company's evaluation of deferred tax assets.*

5 *Represents claim payments for self-insured claims.*

6 *Represents lease payments, net of sublease income.*

**3. Exhibits**

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | |
|---|---|---|---|---|---|
| | | Form | File No. | Exhibit | Filing Date |
| 2.1 | Arrangement Agreement, dated as of February 2, 2016, among Lowe's Companies, Inc., Lowe's Companies Canada, ULC and RONA Inc.(1)‡ | | | | |
| 3.1 | Restated Charter of Lowe's Companies, Inc. | 10-Q | 001-07898 | 3.1 | September 1, 2009 |
| 3.2 | Bylaws of Lowe's Companies, Inc., as amended and restated March 18, 2016. | 8-K | 001-07898 | 3.1 | March 24, 2016 |
| 4.1 | Indenture, dated as of April 15, 1992, between Lowe's Companies, Inc. and The Bank of New York, as successor trustee. | S-3 | 033-47269 | 4.1 | April 16, 1992 |
| 4.2 | Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and The Bank of New York, as successor trustee. | 8-K | 001-07898 | 4.1 | December 15, 1995 |
| 4.3 | Form of Lowe's Companies, Inc.'s 6 7/8% Debentures due February 15, 2028. | 8-K | 001-07898 | 4.2 | February 20, 1998 |
| 4.4 | First Supplemental Indenture, dated as of February 23, 1999, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and The Bank of New York, as successor trustee. | 10-K | 001-07898 | 10.13 | April 19, 1999 |
| 4.5 | Form of Lowe's Companies, Inc.'s 6 1/2% Debentures due March 15, 2029. | 10-K | 001-07898 | 10.19 | April 19, 1999 |
| 4.6 | Third Supplemental Indenture, dated as of October 6, 2005, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and The Bank of New York, as trustee, including as an exhibit thereto a form of Lowe's Companies, Inc.'s 5.5% Notes maturing in October 2035. | 10-K | 001-07898 | 4.5 | April 3, 2007 |
| 4.7 | Fourth Supplemental Indenture, dated as of October 10, 2006, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and The Bank of New York Trust Company, N.A., as trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 5.40% Notes maturing in October 2016 and a form of Lowe's Companies, Inc.'s 5.80% Notes maturing in October 2036. | S-3 (POSASR) | 333-137750 | 4.5 | October 10, 2006 |

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | |
|---|---|---|---|---|---|
| | | Form | File No. | Exhibit | Filing Date |
| 4.8 | Fifth Supplemental Indenture, dated as of September 11, 2007, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and The Bank of New York Trust Company, N.A., as trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 6.10% Notes maturing in September 2017 and a form of Lowe's Companies, Inc.'s 6.65% Notes maturing in September 2037. | 8-K | 001-07898 | 4.1 | September 11, 2007 |
| 4.9 | Sixth Supplemental Indenture, dated as of April 15, 2010, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 4.625% Notes maturing in April 2020 and a form of Lowe's Companies, Inc.'s 5.800% Notes maturing in April 2040. | 8-K | 001-07898 | 4.1 | April 15, 2010 |
| 4.10 | Seventh Supplemental Indenture, dated as of November 22, 2010, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 2.125% Notes maturing in April 2016 and a form of Lowe's Companies, Inc.'s 3.750% Notes maturing in April 2021. | 8-K | 001-07898 | 4.1 | November 22, 2010 |
| 4.11 | Eighth Supplemental Indenture, dated as of November 23, 2011, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 3.800% Notes maturing in November 2021 and a form of Lowe's Companies, Inc.'s 5.125% Notes maturing in November 2041. | 8-K | 001-07898 | 4.1 | November 23, 2011 |
| 4.12 | Ninth Supplemental Indenture, dated as of April 23, 2012, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 1.625% Notes maturing in April 2017, a form of Lowe's Companies, Inc.'s 3.120% Notes maturing in April 2022 and a form of Lowe's Companies, Inc.'s 4.650% Notes maturing in April 2042. | 8-K | 001-07898 | 4.1 | April 23, 2012 |

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | |
|---|---|---|---|---|---|
| | | Form | File No. | Exhibit | Filing Date |
| 4.13 | Tenth Supplemental Indenture, dated as of September 11, 2013, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s 3.875% Notes maturing in September 2023 and a form of Lowe's Companies, Inc.'s 5.000% Notes maturing in September 2043. | 8-K | 001-07898 | 4.1 | September 11, 2013 |
| 4.14 | Eleventh Supplemental Indenture, dated as of September 10, 2014, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s Floating Rate Notes maturing in September 2019, a form of Lowe's Companies, Inc.'s 3.125% Notes maturing in September 2024 and a form of Lowe's Companies, Inc.'s 4.250% Notes maturing in September 2044. | 8-K | 001-07898 | 4.1 | September 10, 2014 |
| 4.15 | Twelfth Supplemental Indenture, dated as of September 16, 2015, to the Amended and Restated Indenture, dated as of December 1, 1995, between Lowe's Companies, Inc. and The Bank of New York Mellon Trust Company, N.A., as trustee, including as exhibits thereto a form of Lowe's Companies, Inc.'s Floating Rate Notes maturing in September 2018, a form of Lowe's Companies, Inc.'s 3.375% Notes maturing in September 2025 and a form of Lowe's Companies, Inc.'s 4.375% Notes maturing in September 2045. | 8-K | 001-07898 | 4.1 | September 16, 2015 |
| 4.16 | Credit Agreement, dated as of August 29, 2014, by and among Lowe's Companies, Inc., Bank of America, N.A., as administrative agent, swing line lender and an l/c issuer, Wells Fargo Bank, National Association, as syndication agent and an l/c issuer, Goldman Sachs Bank USA, JPMorgan Chase Bank, N.A., SunTrust Bank and U.S. Bank National Association, as co-documentation agents, and the other lenders party thereto. | 8-K | 001-07898 | 10.1 | September 2, 2014 |
| 10.1 | Lowe's Companies, Inc. Directors' Deferred Compensation Plan, effective July 1, 1994.* | 10-Q | 001-07898 | 10.1 | December 2, 2008 |
| 10.2 | Amendment No. 1 to the Lowe's Companies, Inc. Directors' Deferred Compensation Plan, effective January 31, 2009.* | 10-K | 001-07898 | 10.21 | March 30, 2010 |

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | |
|---|---|---|---|---|---|
| | | Form | File No. | Exhibit | Filing Date |
| 10.3 | Lowe's Companies Employee Stock Purchase Plan – Stock Options for Everyone, as amended and restated effective June 1, 2012.* | DEF 14A | 001-07898 | Appendix B | April 13, 2012 |
| 10.4 | Lowe's Companies, Inc. 1997 Incentive Plan.* | S-8 | 333-34631 | 4.2 | August 29, 1997 |
| 10.5 | Amendments to the Lowe's Companies, Inc. 1997 Incentive Plan, dated January 25, 1998.* | 10-K | 001-07898 | 10.16 | April 19, 1999 |
| 10.6 | Amendments to the Lowe's Companies, Inc. 1997 Incentive Plan, dated September 17, 1998 (also encompassing as Exhibit I thereto the Lowe's Companies, Inc. Deferred Compensation Program).* | 10-K | 001-07898 | 10.17 | April 19, 1999 |
| 10.7 | Amendment No. 1 to the Lowe's Companies, Inc. Deferred Compensation Program, effective as of January 1, 2005.* | 10-K | 001-07898 | 10.25 | March 29, 2011 |
| 10.8 | Amendment No. 2 to the Lowe's Companies, Inc. Deferred Compensation Program, effective as of December 31, 2008.* | 10-K | 001-07898 | 10.22 | March 31, 2009 |
| 10.9 | Lowe's Companies Benefit Restoration Plan, as amended and restated as of January 1, 2008.* | 10-Q | 001-07898 | 10.2 | December 12, 2007 |
| 10.10 | Amendment No. 1 to the Lowe's Companies Benefit Restoration Plan.* | 10-K | 001-07898 | 10.10 | March 29, 2011 |
| 10.11 | Amendment No. 2 to the Lowe's Companies Benefit Restoration Plan.* | 10-K | 001-07898 | 10.11 | March 29, 2011 |
| 10.12 | Amendment No. 3 to the Lowe's Companies Benefit Restoration Plan.* | 10-Q | 001-07898 | 10.1 | December 1, 2011 |
| 10.13 | Amendment No. 4 to the Lowe's Companies Benefit Restoration Plan.* | 10-Q | 001-07898 | 10.1 | September 4, 2012 |
| 10.14 | Amendment No. 5 to the Lowe's Companies Benefit Restoration Plan.* | 10-Q | 001-07898 | 10.1 | December 3, 2013 |
| 10.15 | Amendment No. 6 to the Lowe's Companies Benefit Restoration Plan.* | 10-K | 001-07898 | 10.1 | March 31, 2015 |
| 10.16 | Form of Lowe's Companies, Inc. Management Continuity Agreement for Tier I Senior Officers used for agreements entered into prior to June 1, 2012.* | 10-Q | 001-07898 | 10.1 | September 3, 2008 |

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | |
|---|---|---|---|---|---|
| | | Form | File No. | Exhibit | Filing Date |
| 10.17 | Form of Lowe's Companies, Inc. Management Continuity Agreement for Tier I Senior Officers used for agreements entered into on or after June 1, 2012.* | 10-Q | 001-07898 | 10.2 | September 4, 2012 |
| 10.18 | Form of Lowe's Companies, Inc. Management Continuity Agreement for Tier II Senior Officers.* | 10-Q | 001-07898 | 10.2 | September 3, 2008 |
| 10.19 | Lowe's Companies Cash Deferral Plan.* | 10-Q | 001-07898 | 10.1 | June 4, 2004 |
| 10.20 | Amendment No. 1 to the Lowe's Companies Cash Deferral Plan.* | 10-Q | 001-07898 | 10.1 | December 12, 2007 |
| 10.21 | Amendment No. 2 to the Lowe's Companies Cash Deferral Plan.* | 10-Q | 001-07898 | 10.2 | December 1, 2010 |
| 10.22 | Lowe's Companies, Inc. Amended and Restated Directors' Stock Option and Deferred Stock Unit Plan.* | 8-K | 001-07898 | 10.1 | June 3, 2005 |
| 10.23 | Form of Lowe's Companies, Inc. Deferred Stock Unit Agreement for Directors.* | 8-K | 001-07898 | 10.2 | June 3, 2005 |
| 10.24 | Form of Lowe's Companies, Inc. Restricted Stock Award Agreement.* | 10-Q | 001-07898 | 10.1 | September 1, 2005 |
| 10.25 | Form of Lowe's Companies, Inc. Performance Share Unit Award Agreement.* | 10-Q | 001-07898 | 10.1 | May 31, 2011 |
| 10.26 | Lowe's Companies, Inc. 2011 Annual Incentive Plan, effective as of January 29, 2011.* | DEF 14A | 001-07898 | Appendix B | April 11, 2011 |
| 10.27 | Lowe's Companies, Inc. 2006 Long Term Incentive Plan, as amended and restated effective as of March 21, 2014.* | DEF 14A | 001-07898 | Appendix B | April 14, 2014 |
| 10.28 | Form of Lowe's Companies, Inc. 2006 Long Term Incentive Plan Non-Qualified Stock Option Agreement.* | 10-K | 001-07898 | 10.24 | March 29, 2011 |
| 12.1 | Statement re Computation of Ratio of Earnings to Fixed Charges.‡ | | | | |
| 21.1 | List of Subsidiaries.‡ | | | | |
| 23.1 | Consent of Deloitte & Touche LLP.‡ | | | | |
| 31.1 | Certification of Principal Executive Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡ | | | | |

| Exhibit Number | Exhibit Description | Incorporated by Reference | | | |
|---|---|---|---|---|---|
| | | Form | File No. | Exhibit | Filing Date |
| 31.2 | Certification of Principal Financial Officer Pursuant to Rule 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.‡ | | | | |
| 32.1 | Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.† | | | | |
| 32.2 | Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.† | | | | |
| 99.1 | Amendment No. 3 to the Lowe's 401(k) Plan, effective as of January 1, 2015 (filed to include this amendment as an exhibit to the Registration Statement on Form S-8, Registration No. 033-29772).*‡ | | | | |
| 99.2 | Amendment No. 4 to the Lowe's 401(k) Plan, effective as of January 1, 2016 (filed to include this amendment as an exhibit to the Registration Statement on Form S-8, Registration No. 033-29772).*‡ | | | | |
| 101.INS | XBRL Instance Document.‡ | | | | |
| 101.SCH | XBRL Taxonomy Extension Schema Document.‡ | | | | |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document.‡ | | | | |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document.‡ | | | | |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document.‡ | | | | |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document.‡ | | | | |

(1) Schedules have been omitted pursuant to Item 601 (b)(2) of Regulation S-K. Lowe's Companies, Inc. agrees to furnish supplementally to the Securities and Exchange Commission a copy of any omitted schedules upon request.

* Indicates a management contract or compensatory plan or arrangement.

‡ Filed herewith.

† Furnished herewith.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LOWE'S COMPANIES, INC.
(Registrant)

| | |
|---|---|
| March 28, 2016 | By: /s/ Robert A. Niblock |
| Date | Robert A. Niblock<br>Chairman of the Board, President and Chief Executive Officer |
| March 28, 2016 | By: /s/ Robert F. Hull, Jr. |
| Date | Robert F. Hull, Jr.<br>Chief Financial Officer |
| March 28, 2016 | By: /s/ Matthew V. Hollifield |
| Date | Matthew V. Hollifield<br>Senior Vice President and Chief Accounting Officer |

Pursuant to the requirements of the Securities Exchange Act of 1934, this report on Form 10-K has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated. Each of the directors of the registrant whose signature appears below hereby appoints Robert F. Hull, Jr., Matthew V. Hollifield and Ross W. McCanless, and each of them severally, as his or her attorney-in-fact to sign in his or her name and behalf, in any and all capacities stated below, and to file with the Securities and Exchange Commission any and all amendments to this report on Form 10-K, making such changes in this report on Form 10-K as appropriate, and generally to do all such things in their behalf in their capacities as directors and/or officers to enable the registrant to comply with the provisions of the Securities Exchange Act of 1934, and all requirements of the Securities and Exchange Commission.

| | | |
|---|---|---|
| /s/ Robert A. Niblock | Chairman of the Board, President, Chief Executive Officer and Director | March 28, 2016 |
| Robert A. Niblock | | Date |
| /s/ Raul Alvarez | Director | March 28, 2016 |
| Raul Alvarez | | Date |
| /s/ David W. Bernauer | Director | March 28, 2016 |
| David W. Bernauer | | Date |
| /s/ Angela F. Braly | Director | March 28, 2016 |
| Angela F. Braly | | Date |
| /s/ Sandra B. Cochran | Director | March 28, 2016 |
| Sandra B. Cochran | | Date |
| /s/ Laurie Z. Douglas | Director | March 28, 2016 |
| Laurie Z. Douglas | | Date |
| /s/ Richard W. Dreiling | Director | March 28, 2016 |
| Richard W. Dreiling | | Date |
| /s/ Robert L. Johnson | Director | March 28, 2016 |
| Robert L. Johnson | | Date |
| /s/ Marshall O. Larsen | Director | March 28, 2016 |
| Marshall O. Larsen | | Date |
| /s/ Richard K. Lochridge | Director | March 28, 2016 |
| Richard K. Lochridge | | Date |
| /s/ James H. Morgan | Director | March 28, 2016 |
| James H. Morgan | | Date |
| /s/ Bertram L. Scott | Director | March 28, 2016 |
| Bertram L. Scott | | Date |
| /s/ Eric C. Wiseman | Director | March 28, 2016 |
| Eric C. Wiseman | | Date |

**Exhibit 2.1**

**EXECUTION COPY**

**LOWE'S COMPANIES, INC.**

**and**

**LOWE'S COMPANIES CANADA, ULC**

**and**

**RONA INC.**

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# ARRANGEMENT AGREEMENT

**February 2, 2016**

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**ARRANGEMENT AGREEMENT**

**THIS AGREEMENT** is made as of February 2, 2016,

**AMONG:**

**LOWE'S COMPANIES, INC.,** a corporation incorporated under the laws of North Carolina

(the "**Parent**")

- and –

**LOWE'S COMPANIES CANADA, ULC,** an unlimited liability company incorporated under the laws of Nova Scotia

(the "**Purchaser**")

- and –

**RONA INC.,** a corporation incorporated under the laws of Québec

(the "**Company**").

**NOW THEREFORE,** in consideration of the covenants and agreements herein contained, the Parties agree as follows:

## ARTICLE 1
## INTERPRETATION

### Section 1.1 Defined Terms

As used in this Agreement, the following terms have the following meanings:

"**Acquisition Proposal**" means, other than the transactions contemplated by this Agreement and other than any transaction involving only the Company and/or one or more of its Subsidiaries or between one or more of its Subsidiaries, any offer, proposal or inquiry (written or oral) from any Person or group of Persons other than the Parent or the Purchaser (or any affiliate of the Parent or the Purchaser) after the date of this Agreement relating to: (i) any direct or indirect sale, disposition, alliance or joint venture (or any lease, long-term supply agreement or other arrangement having the same economic effect as a sale), in a single transaction or a series of related transactions, of assets (including shares of Subsidiaries of the Company) representing 20% or more of the consolidated assets or contributing 20% or more of the consolidated revenue of the Company and its Subsidiaries; (ii) any direct or indirect take-over bid, tender

offer, exchange offer, treasury issuance or other transaction that, if consummated, would result in a Person or group of Persons acquiring beneficial ownership of 20% or more of any class of voting or equity securities of the Company (or securities convertible into or exchangeable for such voting or equity securities) then outstanding (assuming, if applicable, the conversion, exchange or exercise of such securities convertible into or exchangeable or exercisable for such voting or equity securities); (iii) any plan of arrangement, merger, amalgamation, consolidation, share exchange, business combination, reorganization, recapitalization, liquidation, dissolution or winding up involving the Company or any of its Subsidiaries; or (iv) any other similar transaction or series of transactions involving the Company or any of its Subsidiaries.

"**affiliate**" has the meaning specified in National Instrument 45-106 – *Prospectus and Registration Exemptions*.

**"Agreement"** means this arrangement agreement.

"**Arrangement**" means an arrangement under Chapter XVI – Division II of the QBCA on the terms and subject to the conditions set out in the Plan of Arrangement, subject to any amendments or variations to the Plan of Arrangement made in accordance with the terms of this Agreement or made at the direction of the Court in the Final Order with the prior written consent of the Company and the Purchaser, each acting reasonably.

"**Arrangement Resolution**" means the special resolution approving the Plan of Arrangement to be considered at the Company Meeting substantially in the form set out in Schedule B.

"**Articles of Arrangement**" means the articles of arrangement of the Company in respect of the Arrangement, required by the QBCA to be sent to the Enterprise Registrar after the Final Order is made, which shall include the Plan of Arrangement and otherwise be in a form and content satisfactory to the Company and the Purchaser, each acting reasonably.

"**associate**" has the meaning specified in the *Securities Act* (Québec).

"**Authorization**" means, with respect to any Person, any order, permit, approval, consent, waiver, licence or similar authorization of any Governmental Entity having jurisdiction over the Person.

"**Board**" means the board of directors of the Company as constituted from time to time.

**"Board Recommendation"** has the meaning ascribed thereto in Section 2.4(2).

**"Breaching Party"** has the meaning ascribed thereto in Section 4.8(3).

**"Business Day"** means any day of the year, other than a Saturday, Sunday, a public holiday or a day when banks in Montreal, Québec or Mooresville, North Carolina are not generally open for business.

"**Certificate of Arrangement**" means the certificate of arrangement to be issued by the Enterprise Registrar in accordance with the QBCA in respect of the Articles of Arrangement.

"**Collective Agreements**" means collective agreements and related documents including benefit agreements, letters of understanding, letters of intent and other written communications (including arbitration awards) by which the Company and any of its Subsidiaries are bound.

"**Commissioner of Competition**" means the Commissioner of Competition appointed pursuant to Subsection 7(1) of the Competition Act or his designee, and, when the context so requires, includes his staff at the Competition Bureau.

"**Common Shareholders**" means the registered and/or beneficial holders of the Common Shares, as the context requires.

"**Common Shares**" means the common shares in the capital of the Company.

"**Company**" has the meaning ascribed thereto in the Preamble.

"**Company 2016 Budget**" means the annual budget of the Company and/or its Subsidiaries, as applicable, in respect of the financial year ending December 31, 2016, as disclosed in Section 1.1(i) of the Company Disclosure Letter.

"**Company Assets**" means all of the assets, properties, permits, rights or other privileges (whether contractual or otherwise) of the Company and its Subsidiaries and, for greater certainty, includes the Owned Properties and the Leased Properties.

"**Company Circular**" means the notice of the Company Meeting and accompanying management information circular, including all schedules, appendices and exhibits to, and information incorporated by reference in, such management information circular, to be sent to Company Shareholders in connection with the Company Meeting, as amended, supplemented or otherwise modified from time to time in accordance with the terms of this Agreement.

"**Company Disclosure Letter**" means the disclosure letter dated the date of this Agreement and delivered by the Company to the Purchaser with this Agreement.

"**Company Employees**" means the officers and employees of the Company and its Subsidiaries.

"**Company Filings**" means all documents publicly filed by or on behalf of the Company on SEDAR since January 1, 2014.

"**Company Meeting**" means the special meeting of Company Shareholders, including any adjournment or postponement of such special meeting in accordance with the terms of this Agreement, to be called and held in accordance with the Interim Order to consider the Arrangement Resolution and the Preferred Shareholder Resolution.

"**Company Securityholders**" means, collectively, the Company Shareholders, the holders of Options, the holders of DSUs, the holders of RSUs and the holders of PSUs.

"**Company Shareholders**" means the Common Shareholders and the Preferred Shareholders.

"**Company Shares**" means, collectively, the Common Shares and the Preferred Shares.

"**Company's Constating Documents**" means the articles of amalgamation and by-laws of the Company and all amendments to such articles or by-laws.

"**Competition Act**" means the *Competition Act* (Canada).

"**Competition Act Approval**" means (i) receipt by the Purchaser of an advance ruling certificate by the Commissioner of Competition under Subsection 102(1) of the Competition Act to the effect that the Commissioner of Competition is satisfied that he would not have sufficient grounds upon which to apply to the Competition Tribunal for an order under Section 92 of the Competition Act with respect to the transactions contemplated by this Agreement; or (ii) both of the (A) expiry or termination of the waiting period, including any extension of such waiting period, under Section 123 of the Competition Act or the waiver of the obligation to provide a pre-merger notification in accordance with paragraph 113(c) of the Competition Act, and (B) receipt by the Purchaser of a No Action Letter.

"**Confidentiality Agreement**" means the confidentiality, standstill and exclusivity agreement dated December 17, 2015 between the Company and the Parent.

"**Consideration**" means $24.00 in cash per Common Share, without interest, and $20.00 in cash per Preferred Share (together with an amount equal to all accrued and unpaid dividends thereon up to, but excluding, the Effective Date), without interest, as applicable.

**"Contract"** means any agreement, commitment, engagement, contract, franchise, licence, lease (including the Leases), obligation, undertaking or joint venture (written or oral) to which the Company or any of its Subsidiaries is a party or by which it or any of its Subsidiaries is bound or affected or to which any of their respective properties or assets is subject.

"**Court**" means the Québec Superior Court, or other court as applicable.

"**Data Room**" means the material contained in the virtual data room established by the Company as at 11:59 p.m. on February 1, 2016, the index of documents of which is appended to the Company Disclosure Letter.

"**Debentures**" means the 5.40% debentures due October 20, 2016 issued pursuant to the trust indenture dated as of October 20, 2006 among the Company, Computershare Trust Company of Canada and the guarantors thereto.

"**Depositary**" means Computershare Investor Services Inc.

"**Disclosing Party**" has the meaning ascribed thereto in Section 4.4(4).

"**Dissent Rights**" means the rights to demand repurchase of Company Shares in respect of the Arrangement described in the Plan of Arrangement.

"**DSUs**" means the outstanding deferred share units issued pursuant to the deferred share unit plan of the Company dated February 21, 2006.

"**Effective Date**" means the date shown on the Certificate of Arrangement giving effect to the Arrangement.

"**Effective Time**" has the meaning ascribed thereto in the Plan of Arrangement.

**"Employee Plans"** means all employee benefit, fringe benefit, health, welfare, medical, dental, life insurance, supplemental unemployment benefit, bonus, commissions, profit sharing, option, phantom stock, stock appreciation, savings, insurance, incentive, incentive compensation, deferred compensation, termination, severance, change of control, share purchase, share compensation, disability, retirement, pension, supplemental retirement plans and similar employee or director compensation or benefit plans, policies, trusts, funds, agreements or arrangements for the benefit of directors or former directors of the Company or any of its Subsidiaries, Company Employees or former Company Employees, which are maintained, sponsored or funded by or binding upon the Company or any of its Subsidiaries, whether written or oral, funded or unfunded, insured or self-insured, registered or unregistered, in respect of which the Company or any of its Subsidiaries may have any liability (contingent or otherwise), other than benefit plans established pursuant to statute, the deferred share unit plan of the Company dated February 21, 2006, the Share Unit Plans and the Stock Option Plans.

"**Enterprise Registrar**" means the enterprise registrar appointed by the Minister of Revenue of Québec.

"**Environmental Laws**" means all Laws and agreements with Governmental Entities and all other statutory requirements relating to public health and safety, noise control, pollution or the protection of the environment or to the generation, production, installation, use, storage, treatment, transportation, Release or threatened Release of Hazardous Substances, including civil responsibility for acts or omissions with respect to the environment, and all Authorizations issued pursuant to such Laws, agreements or other statutory requirements.

"**Exchange**" means the Toronto Stock Exchange.

"**Fairness Opinions**" means the opinions of Scotia Capital Inc. to the effect that, as of the date of such opinion (i) the Consideration to be received by the Common Shareholders is fair, from a financial point of view, to the Common Shareholders and (ii) the Consideration to be received by the Preferred Shareholders is fair, from a financial point of view, to the Preferred Shareholders.

"**Final Order**" means the final order of the Court in a form acceptable to the Company and the Purchaser, each acting reasonably, approving the Arrangement, as such order may be amended by the Court (with the consent of both the Company and the Purchaser, each acting reasonably) at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended (provided that any such amendment is acceptable to both the Company and the Purchaser, each acting reasonably) on appeal.

"**GAAP**" means generally accepted accounting principles as set out in the CPA Canada Handbook – Accounting for an entity that prepares its financial statements in accordance with International Financial Reporting Standards, at the relevant time, applied on a consistent basis.

**"Governmental Entity"** means (i) any international, multinational, national, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau, commissioner, minister, cabinet, governor in council, ministry, agency or instrumentality, domestic or foreign, (ii) any subdivision or authority of any of the above, (iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing, or (iv) any stock exchange.

"**Hazardous Substances**" means any element, waste or other substance, whether natural or artificial and whether consisting of gas, liquid, solid or vapour that is prohibited, listed, defined, judicially interpreted, designated or classified as dangerous, hazardous, radioactive, explosive or toxic or a pollutant or a contaminant under or pursuant to any applicable Environmental Laws, and specifically including petroleum and all derivatives thereof or synthetic substitutes therefor and asbestos or asbestos-containing materials or any substance which is deemed under Environmental Laws to be deleterious to natural resources or worker or public health and safety.

"**Heritage Minister**" means the Minister of Canadian Heritage and, when the context so requires, includes personnel at the Department of Canadian Heritage.

"**ICA**" means the *Investment Canada Act*.

"**ICA Approvals**" means the ICA Industry Approval and the ICA Heritage Approval.

**"ICA Heritage Approval"** means that the Heritage Minister shall have determined that she is satisfied that the transactions contemplated by this Agreement are likely to be of net benefit to Canada pursuant to the ICA and receipt by the Purchaser of written evidence from the Heritage Minister to that effect.

"**ICA Industry Approval**" means that the Industry Minister shall have determined that he is satisfied that the transactions contemplated by this Agreement are likely to be of net benefit to Canada pursuant to the ICA and receipt by the Purchaser of written evidence from the Industry Minister to that effect.

**"Indemnified Persons"** has the meaning ascribed to in Section 8.7(1).

"**Industry Minister**" means the Minister of Innovation, Science and Economic Development and, when the context so requires, includes personnel at Innovation, Science and Economic Development Canada.

**"Intellectual Property"** means domestic and foreign: (i) patents, applications for patents and reissues, divisions, continuations, renewals, extensions and continuations-in-part of patents or patent applications; (ii) proprietary and non-public business information, including inventions (whether patentable or not), invention disclosures, improvements, discoveries, trade secrets, confidential information, know-how, methods, processes, designs, technology, technical data, schematics, formulae and customer lists, and documentation relating to any of the foregoing; (iii) copyrights, copyright registrations and applications for copyright registration; (iv) mask works, mask work registrations and applications for mask work registrations; (v) designs, design registrations, design registration applications and integrated circuit topographies; (vi) trade names, business names, corporate names, domain names, website names and world wide web addresses, common law trade-marks, trade-mark registrations, trade mark applications, trade dress and logos, and the goodwill associated with any of the foregoing; (vii) Software; and (viii) any other intellectual property and industrial property.

"**Intellectual Property Rights**" has the meaning ascribed to in Paragraph (29) of Schedule D.

"**Interim Order**" means the interim order of the Court in a form acceptable to the Company and the Purchaser, each acting reasonably, providing for, among other things, the calling and holding of the Company Meeting, as such order may be amended by the Court with the consent of the Company and the Purchaser, each acting reasonably.

"**Law**" means, with respect to any Person, any and all applicable law (statutory, civil, common or otherwise), constitution, treaty, convention, ordinance, code, rule, regulation, order, injunction, judgment, decree, ruling or other similar requirement, whether domestic or foreign, enacted, adopted, promulgated or applied by a Governmental Entity that is binding upon or applicable to such Person or its business, undertaking, property or securities, and to the extent that they have the force of law, policies, guidelines, notices and protocols of any Governmental Entity, as amended unless expressly specified otherwise.

"**Leased Properties**" has the meaning ascribed thereto in Paragraph (27)(c) of Schedule D.

**"Leases**" means the leases, subleases, licenses or occupancy agreements pursuant to which the Company or one of its Subsidiaries is the tenant, subtenant, licensee or occupier, as applicable, of the Leased Properties.

"**Lien"** means any mortgage, charge, pledge, hypothec, security interest, prior claim, encroachments, option, right of first refusal or first offer, occupancy right, covenant, assignment, lien (statutory or otherwise), defect of title, or restriction or adverse right or claim, or other third party interest or encumbrance of any kind, in each case, whether contingent or absolute.

"**Matching Period"** has the meaning ascribed thereto in Section 5.4(1)(e).

"**Material Adverse Effect**" means any change, event, occurrence, effect, state of facts or circumstance that, individually or in the aggregate with other such changes, events, occurrences, effects, state of facts or circumstances, is or would reasonably be expected to be material and adverse to the business, operations, results of operations, assets, properties, capitalization, condition (financial or otherwise) or liabilities (contingent or otherwise) of the Company and its Subsidiaries, taken as a whole, except any such change, event, occurrence, effect, state of facts or circumstances resulting from:

(a) any change affecting the retail and distribution of hardware, home improvement and gardening industry as a whole;

(b) any change in general economic, business, regulatory, political, financial, capital, securities or credit market conditions in Canada;

(c) any change in Law or GAAP;

(d) any fluctuation in interest or inflation rates or Canadian and U.S. currency exchange rates;

(e) any action taken (or omitted to be taken) by Company or any of its Subsidiaries which is required to be taken (or omitted to be taken) pursuant to this Agreement or requested by the Parent or the Purchaser in writing, or the failure to take any actions prohibited by this Agreement;

(f) the announcement of this Agreement or consummation of the Arrangement or the transactions contemplated hereby;

(g) any matter which has been expressly disclosed by the Company in the Company Disclosure Letter;

(h) the failure of the Company to meet any internal or published projections, forecasts, guidance or estimates of revenues, earnings or cash flows or any seasonal fluctuation in the Company's results (it being understood that the causes underlying such failure may be taken into account in determining whether a Material Adverse Effect has occurred); or

(i) any change in the market price or trading volume of any securities of the Company or the credit ratings of the Company, or any suspension of trading in securities generally on any securities exchange on which any securities of the Company trade (it being understood that the causes underlying such change in market price or trading volume may be taken into account in determining whether a Material Adverse Effect has occurred);

provided, however, that (A) with respect to clauses (a) through to and including (d), such matter does not have a materially disproportionate effect on the business, operations, results of operations, assets, properties, capitalization, condition (financial or otherwise) or liabilities of

the Company and its Subsidiaries, taken as a whole, relative to other comparable companies and entities operating in the retail and distribution of hardware, home improvement and gardening industry (in which case the incremental disproportionate effect may be taken into account in determining whether there has been, or is reasonably expected to be, a Material Adverse Effect), and (B) unless expressly provided in any particular section of this Agreement, references in certain sections of this Agreement to dollar amounts are not intended to be, and shall not be deemed to be, illustrative or interpretive for purposes of determining whether a "Material Adverse Effect" has occurred.

"**Material Contract**" means (1) any Contract: (i) that if terminated or modified or if it ceased to be in effect, would reasonably be expected to have a Material Adverse Effect; (ii) that is a partnership agreement, limited liability company agreement, joint venture agreement or similar agreement or arrangement relating to the formation, creation or operation of any partnership, limited liability company or joint venture; (iii) relating directly or indirectly to the guarantee of any liabilities or obligations or to indebtedness (currently outstanding or which may become outstanding) for borrowed money in excess of $10,000,000 in the aggregate, excluding guarantees or intercompany liabilities or obligations between two or more wholly-owned Subsidiaries of the Company or between the Company and one or more of its wholly-owned Subsidiaries; (iv) restricting the incurrence of indebtedness by the Company or any of its Subsidiaries or (including by requiring the granting of an equal and rateable Lien) the incurrence of any Liens on any properties or assets of the Company or any of its Subsidiaries, or restricting the payment of dividends by the Company or by any of its Subsidiaries; (v) under which the Company or any of its Subsidiaries is obligated to make or expects to receive payments on an annual basis in excess of $10,000,000, such as the purchase of supplies, equipment and inventory; (vi) that creates, in favour of another Person other than the Company or a Subsidiary, an exclusive dealing arrangement, right of first offer or refusal or "most favoured nation" obligation; (vii) that is a Collective Agreement or other material agreement with a union; (viii) providing for severance or change in control payments; (ix) providing for the purchase, sale or exchange of, or unconditional option to purchase, sell or exchange, any real or immovable property or real or immovable asset where the purchase or sale price or agreed value or fair market value of such real or immovable property or real or immovable asset exceeds $10,000,000; (x) that limits or restricts in any material respect (A) the ability of the Company or any Subsidiary to engage in any line of business or carry on business in any geographic area, or (B) the scope of Persons to whom the Company or any of its Subsidiaries may sell products or deliver services; or (xi) that requires the consent of any other party to the Contract to a change in control of the Company or any of its Subsidiaries; and (2) any Lease.

"**MI 61-101**" means Multilateral Instrument 61-101 *Protection of Minority Shareholders in Special Transactions*.

**"Misrepresentation"** has the meaning ascribed thereto under Securities Laws.

"**No Action Letter**" means written confirmation from the Commissioner of Competition that he does not, at that time, intend to make an application under Section 92 of the Competition Act in respect of the transactions contemplated by this Agreement.

"**OHSA**" has the meaning ascribed to in Paragraph (33)(i) of Schedule D.

"**officer**" has the meaning ascribed thereto in the *Securities Act* (Québec).

"**Options**" means the outstanding options to purchase Common Shares issued pursuant to the Stock Option Plans.

"**Order**" means all judicial, arbitral, administrative, ministerial, departmental or regulatory judgments, injunctions, orders, decisions, rulings, determinations, awards, decrees or similar actions taken by, or applied by, any Governmental Authority (in each case, whether temporary, preliminary or permanent).

**"Ordinary Course"** means, with respect to an action taken by any Person, that such action is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of the business of such Person.

"**Outside Date**" means August 31, 2016 or such later date as may be agreed to in writing by the Parties, provided that if the Effective Date has not occurred by August 31, 2016 as a result of the failure to obtain one or more of the Regulatory Approvals, then the Purchaser may elect, by notice in writing delivered to the Company prior to August 31, 2016 to extend the Outside Date by a specified period of not more than two months, provided that, notwithstanding the foregoing, the Purchaser shall not be permitted to extend the Outside Date if the failure to obtain one or more of the Regulatory Approvals is primarily the result of the Purchaser's or the Parent's failure to comply with their covenants herein.

**"Owned Properties"** has the meaning ascribed thereto in Paragraph (27)(a) of Schedule D.

"**Parent**" has the meaning ascribed thereto in the Preamble.

**"Parties"** means the Company, the Parent and the Purchaser and "**Party**" means any one of them.

"**Permitted Dividends**" means, in respect of Common Shares, a dividend not in excess of $0.04 per Common Share per calendar quarter on a basis and on timing consistent with the Company's current practice with respect to dividends, and in respect of the Preferred Shares, regular quarterly dividends payable on the Preferred Shares in accordance with the terms of such Preferred Shares, as set out in the Company's Constating Documents.

**"Permitted Liens"** means, in respect of the Company or any of its Subsidiaries, any one or more of the following:

(a) easements, servitudes, restrictions, restrictive covenants, party wall agreements, rights of way, licenses, permits and other similar rights in land or real property, including rights of way and servitudes for highways and other roads, railways, sewers, drains, gas and oil pipelines, gas and water mains, electric light, power, telephone, telegraph or cable television conduits, poles, wires and cables that do not materially adversely affect the

use of the Company Assets or otherwise materially impair business operations at the affected properties;

(b) Liens imposed by Law and incurred in the Ordinary Course for obligations not yet due or delinquent;

(c) Liens in respect of pledges or deposits under workers' compensation, social security or similar laws, other than with respect to any amounts which are due or delinquent, unless such amounts are being contested in good faith by appropriate proceedings;

(d) zoning and building by-laws and ordinances and regulations made by public authorities that do not materially adversely affect the use of the Company Assets or otherwise materially impair business operations at the affected properties;

(e) Liens for indebtedness arising in the Ordinary Course which was incurred to pay all or a part of the purchase price of any personal or moveable property;

(f) Liens incurred, created and granted in the Ordinary Course to a public utility or private supplier of services, municipality or Governmental Entity in connection with operations conducted with respect to any Company Assets that do not materially adversely affect the use of the Company Assets or otherwise materially impair business operations at the affected properties;

(g) the reservations, limitations, provisos and conditions in any original grant from the applicable Governmental Entity of any of the lands forming part of any Company Assets, or interests in them and statutory exceptions to title that do not materially adversely affect the use of the Company Assets or otherwise materially impair business operations at the affected properties;

(h) Liens for Taxes which are not due or delinquent, or which are being contested in good faith by appropriate proceedings;

(i) inchoate or statutory Liens of contractors, subcontractors, mechanics, workers, suppliers, materialmen, carriers and others in respect of the construction, maintenance, repair or operation of any Company Assets, provided that such Liens are related to obligations not due or delinquent, are not registered against title to any Company Assets and in respect of which adequate holdbacks are being maintained as required by Law;

(j) the right reserved to or vested in any Governmental Entity by any statutory provision or by the terms of any lease, licence, franchise, grant or permit forming part of any Company Assets, to terminate any such lease, licence, franchise, grant or permit, or to require annual or other payments as a condition of their continuance;

(k) such other non-financial rights, imperfections or irregularities of title, encroachments and encumbrances or Liens as do not materially affect the use of the properties or assets subject thereto or affected thereby or otherwise materially impair business operations at such properties;

(l) Liens, other than those described above, registered, as at the date of this Agreement, against the Company Assets in a public personal property registry, personal and real rights registry, land registry or register, or similar registry; and

(m) Liens or royalties described in Section 1.1(iii) of the Company Disclosure Letter.

**"Person"** includes any individual, partnership, association, body corporate, organization, trust, estate, trustee, executor, administrator, legal representative, government (including Governmental Entity), syndicate or other entity, whether or not having legal status.

"**Plan of Arrangement**" means the plan of arrangement, substantially in the form set out in Schedule A, subject to any amendments or variations to such plan made in accordance with Section 8.1 or made at the direction of the Court in the Final Order with the prior written consent of the Company and the Purchaser, each acting reasonably.

"**Pre-Acquisition Reorganization**" has the meaning ascribed thereto in Section 4.6(1).

"**Preferred Shareholder Resolution**" means the special resolution approving the Plan of Arrangement to be considered at the Company meeting by Preferred Shareholders, substantially in the form set out in Schedule C.

"**Preferred Shareholders**" means the registered and/or beneficial holders of the Preferred Shares in the capital of the Company, as the context requires.

"**Preferred Shares**" means the Series 6 Class A Preferred Shares and the Series 7 Class A Preferred Shares.

"**PSUs**" means the performance share units issued under the Share Unit Plans.

**"Purchaser"** has the meaning ascribed thereto in the Preamble.

"**QBCA**" means the *Business Corporations Act* (Québec).

"**Receiving Party**" has the meaning ascribed thereto in Section 4.4(4).

"**Regulatory Approvals**" means Competition Act Approval and ICA Approvals.

"**Release**" has the meaning prescribed in any Environmental Law and includes any sudden, intermittent or gradual release, spill, leak, pumping, addition, pouring, emission, emptying, discharge, migration, injection, escape, leaching, disposal, dumping, deposit, spraying, burial, abandonment, incineration, seepage, placement or introduction of a Hazardous Substance, whether accidental or intentional, into the environment.

"**Representative**" has the meaning ascribed thereto in Section 5.1(1).

"**Rights Plan**" means the shareholder rights plan agreement between the Company and Computershare Trust Company of Canada, as rights agent, dated as of March 10, 2011 and ratified by the Common Shareholders on May 13, 2014.

"**RSUs**" means the restricted share units issued under the share unit plans of the Company dated May 8, 2007, as amended on March 11, 2009, and February 17, 2015.

"**Securities Authority**" means the *Autorité des marchés financiers* (Québec) and the applicable securities commissions or securities regulatory authority of a province or territory of Canada.

"**Securities Laws**" means the *Securities Act* (Québec) and any other applicable Canadian provincial and territorial securities laws, rules and regulations and published policies thereunder.

"**SEDAR**" means the System for Electronic Document Analysis and Retrieval.

"**Senior Management Employees**" means all Company Employees holding a position of senior director or higher in hierarchy within the Company or its Subsidiaries.

"**Series 6 Class A Preferred Shares**" means the sixth series of preferred shares of the Company designated as "Cumulative 5-Year Rate Reset Series 6 Class A Preferred Shares", as constituted on the date hereof.

"**Series 7 Class A Preferred Shares**" means the seventh series of preferred shares of the Company designated as "Cumulative Floating Rate Series 7 Class A Preferred Shares", as constituted on the date hereof.

"**Share Unit Plans**" means the Company's share unit plan adopted on May 8, 2007, as amended on March 11, 2009, and the Company's share unit plan adopted on February 15, 2015.

"**Special Committee**" means the ad hoc committee of directors of the Board consisting of Robert Chevrier, Robert Paré, Steven Richardson, Bernard Dorval and Réal Brunet.

"**Stock Option Plans**" means the share option plan for designated senior executives of the Company adopted on October 24, 2002, as amended on December 14, 2005, March 8, 2007 and February 19, 2008, and the share option plan for designated employees of the Company adopted on March 12, 2015.

"**Subsidiary**" means, with respect to a Person, any entity, whether incorporated or unincorporated: (i) of which such Person or any other Subsidiary of such Person is a general partner; or (ii) at least a majority of the securities or other interests of which having by their terms ordinary voting power to elect a majority of the board of directors or other Persons performing similar functions with respect to such corporation or other organization is directly or indirectly owned or controlled by such Person and/or by any one or more of its Subsidiaries; and shall include any body corporate, partnership, joint venture or other entity over which it exercises direction or control. For purposes of this definition, "**control**" when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise.

"**Superior Proposal**" means any unsolicited *bona fide* written Acquisition Proposal from an arms' length third party or arms' length third parties acting jointly: (i) to acquire not less than all of the outstanding Common Shares or all or substantially all of the assets of the Company on a consolidated basis; (ii) that complies with Securities Laws and did not result from or involve a breach of Article 5 hereof; (iii) that is reasonably capable of being completed without undue delay, taking into account, all financial, legal, regulatory (including with respect to the Competition Act and the ICA, to the extent applicable) and other aspects of such proposal and the Person or group of Persons making such proposal; (iv) that is not subject to any financing contingency; (v) that is not subject to any due diligence and/or access condition; and (vi) in respect of which the Board or any relevant committee thereof determines, in its good faith judgment, after receiving the advice of its outside legal counsel and financial advisors and after taking into account all the terms and conditions of the Acquisition Proposal, including all legal, financial, regulatory (including with respect to the Competition Act and the ICA, to the extent applicable) and other aspects of such Acquisition Proposal and the Person or group of Persons making such Acquisition Proposal, would, if consummated in accordance with its terms, but without assuming away the risk of non-completion, result in a transaction which is more favourable, from a financial point of view, to Common Shareholders than the Arrangement (including any amendments to the terms and conditions of the Arrangement proposed by the Purchaser pursuant to Section 5.4(2) of this Agreement).

**"Superior Proposal Notice"** has the meaning specified in Section 5.4(1)(c).

**"Tax Act"** means the *Income Tax Act* (Canada).

**"Tax Returns"** means any and all returns, reports, declarations, elections, notices, forms, designations, filings, and statements (including estimated tax returns and reports, withholding tax returns and reports, and information returns and reports) filed or required to be filed in respect of Taxes.

**"Taxes"** means (i) any and all taxes, duties, fees, excises, premiums, assessments, imposts, levies and other charges or assessments of any kind whatsoever imposed by any Governmental Entity, whether computed on a separate, consolidated, unitary, combined or other basis, including those levied on, or measured by, or described with respect to, income, gross receipts, profits, gains, windfalls, capital, capital stock, production, recapture, transfer, land transfer, license, gift, occupation, wealth, environment, net worth, indebtedness, surplus, sales, goods and services, harmonized sales, use, value-added, excise, special assessment, stamp, withholding, business, franchising, real or personal property, health, employee health, payroll, workers' compensation, employment or unemployment, severance, social services, social security, education, utility, surtaxes, customs, import or export, and including all license and registration fees and all employment insurance, health insurance and government pension plan premiums or contributions; (ii) all interest, penalties, fines, additions to tax or other additional amounts imposed by

any Governmental Entity on or in respect of amounts of the type described in clause (i) above or this clause (ii); (iii) any liability for the payment of any amounts of the type described in clauses (i) or (ii) as a result of being a member of an affiliated, consolidated, combined or unitary group for any period; and (iv) any liability for the payment of any amounts of the type described in clauses (i) or (ii) as a result of any express or implied obligation to indemnify any other Person or as a result of being a transferee or successor in interest to any party.

**"Technology"** has the meaning specified in Paragraph (29) of Schedule D.

**"Terminating Party"** has the meaning specified in Section 4.8(3).

"**Termination Fee**" has the meaning specified in Section 8.2.

"**Termination Fee Event**" has the meaning specified in Section 8.2.

**"Termination Notice"** has the meaning specified in Section 4.8(3).

**"Voting Agreements"** means the agreements to vote in favour of the Arrangement from each of the Company's directors.

"**wilful breach**" means a material breach that is a consequence of an act undertaken by the breaching party with the actual knowledge that the taking of such act would, or would be reasonably expected to, cause a breach of this Agreement.

**Section 1.2 Certain Rules of Interpretation**

In this Agreement, unless otherwise specified:

(1) **Headings, etc.** The provision of a Table of Contents, the division of this Agreement into Articles and Sections and the insertion of headings are for convenient reference only and do not affect the construction or interpretation of this Agreement.

(2) **Currency.** All references to dollars or to $ are references to Canadian dollars.

(3) **Gender and Number.** Any reference to gender includes all genders. Words importing the singular number only include the plural and vice versa.

(4) **Certain Phrases, etc.** The words (i) "including"**,** "includes" and "include" mean "including (or includes or include) without limitation," (ii) **"**the aggregate of"**,** "the total of"**,** "the sum of"**,** or a phrase of similar meaning means "the aggregate (or total or sum), without duplication, of," and (iii) unless stated otherwise, "Article", "Section", and "Schedule" followed by a number or letter mean and refer to the specified Article or Section of or Schedule to this Agreement. The term "Agreement" and any reference in this Agreement to this Agreement or any other agreement or document includes, and is a reference to, this Agreement or such other agreement or document as it may have been, or may from time to time be, amended, restated, replaced, supplemented or novated and includes all schedules to it. The term "made available" means (i) copies of the subject materials were included in the Data Room (ii) copies of the subject materials were

provided to the Purchaser, or (iii) the subject material was listed in the Company Disclosure Letter or referred to in the Data Room and copies were provided to the Purchaser by the Company if requested.

(5) **Capitalized Terms.** All capitalized terms used in any Schedule or in the Company Disclosure Letter have the meanings ascribed to them in this Agreement.

(6) **Knowledge.** Where any representation or warranty is expressly qualified by reference to the knowledge of the Company, it is deemed to refer to the actual knowledge of (i) Robert Sawyer (President and Chief Executive Officer), (ii) Dominique Boies (Executive Vice-President and Chief Financial Officer), (iii) France Charlebois (Corporate Secretary and Chief Legal Officer), (iv) Christian Proulx (Senior Vice President, Human Resources and Communications), (v) Alain Brisebois (Executive Vice-President and Chief Commercial Officer), (vi) Luc Rodier (Executive Vice-President, Retail) and (vii) Stéphane Milot (Vice-President, Expansion, Development and Real Estate), in their respective capacities as officers of the Company and not in their personal capacity, after reasonable and diligent inquiry.

(7) **Accounting Terms.** All accounting terms are to be interpreted in accordance with GAAP and all determinations of an accounting nature in respect of the Company required to be made shall be made in a manner consistent with GAAP.

(8) **Statutes.** Any reference to a statute refers to such statute and all rules and regulations made under it, as it or they may have been or may from time to time be amended or re-enacted, unless stated otherwise.

(9) **Computation of Time.** A period of time is to be computed as beginning on the day following the event that began the period and ending at 4:30 p.m. on the last day of the period, if the last day of the period is a Business Day, or at 4:30 p.m. on the next Business Day if the last day of the period is not a Business Day.

(10) **Time References.** References to time are to local time, Montreal, Québec.

(11) **Subsidiaries.** To the extent any covenants or agreements relate, directly or indirectly, to a Subsidiary of the Company, each such provision shall be construed as a covenant by the Company to cause (to the fullest extent to which it is legally capable) such Subsidiary to perform the required action.

(12) Schedules. The schedules attached to this Agreement form an integral part of this Agreement for all purposes of it.

## ARTICLE 2
## THE ARRANGEMENT

**Section 2.1 Arrangement**

The Company and the Purchaser agree that the Arrangement will be implemented in accordance with and subject to the terms and conditions of this Agreement and the Plan of Arrangement.

**Section 2.2 Interim Order**

As soon as reasonably practicable after the date of this Agreement, but in any event on or before March 2, 2016, the Company shall apply in a manner reasonably acceptable to the Purchaser pursuant to Chapter XVI – Division II of the QBCA and, in cooperation with the Purchaser, prepare, file and diligently pursue an application for the Interim Order, which must provide, among other things:

(a) for the class of persons to whom notice is to be provided in respect of the Arrangement and the Company Meeting and for the manner in which such notice is to be provided;

(b) that the required level of approval for the Arrangement Resolution shall be two-thirds of the votes cast on the Arrangement Resolution by Common Shareholders present in person or represented by proxy at the Company Meeting and that the required level of approval for the Preferred Shareholder Resolution shall be two-thirds of the votes cast on such resolution by Preferred Shareholders present in person or represented by proxy at the Company Meeting;

(c) that, subject to the foregoing and in all other respects, the terms, restrictions and conditions of the Company's Constating Documents, including quorum requirements and all other matters, shall apply in respect of the Company Meeting;

(d) for the grant of the Dissent Rights to those Company Shareholders who are registered Company Shareholders as contemplated in the Plan of Arrangement;

(e) for the notice requirements with respect to the presentation of the application to the Court for the Final Order;

(f) that the Company Meeting may be adjourned or postponed from time to time by the Company with the consent of the Parent in accordance with the terms of this Agreement without the need for additional approval of the Court;

(g) that the record date for the Company Shareholders entitled to notice of and to vote at the Company Meeting will not change in respect of any adjournment(s) of the Company Meeting, unless required by Law; and

(h) for such other matters as the Purchaser or the Company (with the prior consent of the other) may reasonably require.

**Section 2.3 The Company Meeting**

(1) The Company shall:

(a) convene and conduct the Company Meeting in accordance with the Interim Order, the Company's Constating Documents and Law as soon as reasonably possible, but in any event on or before April 8, 2016, for the purpose of considering the Arrangement Resolution and the Preferred Shareholder Resolution and for any other proper purpose as may be set out in the Company Circular and agreed to by the Purchaser, and not adjourn, postpone or cancel (or propose the adjournment, postponement or cancellation of) the Company Meeting without the prior written consent of the Purchaser except as required or permitted under Section 2.3(1)(i), Section 4.8(3) or Section 5.4(5), or as required for quorum purposes (in which case, the Company Meeting, shall be adjourned and not cancelled) or as required by applicable Law or by a Governmental Entity;

(b) subject to the terms of this Agreement, use its commercially reasonable efforts to solicit proxies in favour of the approval of the Arrangement Resolution and the Preferred Shareholder Resolution and against any resolution submitted by any Person that is inconsistent with the Arrangement Resolution or the Preferred Shareholder Resolution and the completion of any of the transactions contemplated by this Agreement, including, at the Company's discretion or if so requested by the Purchaser, acting reasonably, using dealer and proxy solicitation services firms and cooperating with any Persons engaged by the Purchaser to solicit proxies in favour of the approval of the Arrangement Resolution and the Preferred Shareholder Resolution;

(c) provide the Purchaser with copies of or access to information regarding the Company Meeting generated by any dealer or proxy solicitation services firm, as requested from time to time by the Purchaser;

(d) consult with the Purchaser in fixing the date of the Company Meeting and the record date of the Company Meeting, give notice to the Purchaser of the Company Meeting and allow the Purchaser's representatives and legal counsel to attend the Company Meeting;

(e) promptly advise the Purchaser, at such times as the Purchaser may reasonably request, including, as applicable, on a daily basis on each of the last 10 Business Days prior to the date of the Company Meeting, as to the aggregate tally of the proxies received by the Company in respect of the Arrangement Resolution and the Preferred Shareholder Resolution;

(f) promptly advise the Purchaser of any communication (written or oral) from or claims brought by (or threatened to be brought by) any Person in opposition to the Arrangement and/or purported exercise or withdrawal of Dissent Rights by Company Shareholders. The Company shall not settle or compromise, or agree to settle or compromise, any such claims without the prior written consent of the Purchaser;

(g) not change the record date for the Company Shareholders entitled to vote at the Company Meeting in connection with any adjournment or postponement of the Company Meeting unless required by Law;

(h) at the reasonable request of the Purchaser from time to time, provide the Purchaser with a list (in both written and electronic form) of (i) the registered Common Shareholders, together with their addresses and respective holdings of Common Shares, (ii) the registered Preferred Shareholders, together with their addresses and respective holdings of Preferred Shares, (iii) the names, addresses and holdings of all Persons having rights issued by the Company to acquire Common Shares (including holders of Options, holders of DSUs, holders of RSUs and holders of PSUs), and (iv) participants and book-based nominee registrants such as CDS & Co., CEDE & Co. and DTC, and non-objecting beneficial owners of Common Shares and Preferred Shares, together with their addresses and respective holdings of Common Shares and/or Preferred Shares, all as can be reasonably obtained by the Company using the procedure set forth under Securities Laws. The Company shall from time to time require that its registrar and transfer agent furnish the Purchaser with such additional information, including updated or additional lists of Common Shareholders and Preferred Shareholders, and lists of securities positions and other assistance as the Purchaser may reasonably request; and

(i) if the Company Meeting is to be held during a Matching Period, at the request of the Purchaser, adjourn or postpone the Company Meeting to a date specified by the Purchaser that is not later than 10 Business Days after the date on which the Company Meeting was originally scheduled and in any event to a date that is not later than five Business Days prior to the Outside Date.

**Section 2.4 The Company Circular**

(1) The Company shall, as promptly as reasonably practicable, prepare and complete, in consultation with the Purchaser, the Company Circular together with any other documents required by Law in connection with the Company Meeting and the Arrangement, and the Company shall, as promptly as reasonably practicable after obtaining the Interim Order, cause the Company Circular and such other documents to be filed and sent to each Company Shareholder and other Person as required by the Interim Order and Law, in each case so as to permit the Company Meeting to be held by the date specified in Section 2.3(1), provided that the Purchaser shall have complied with Section 2.4(4).

(2) The Company shall ensure that the Company Circular complies in all material respects with Law, does not contain any Misrepresentation (other than, in each case, with respect to any written information provided by the Purchaser, its affiliates and their respective representatives for inclusion in the Company Circular, as applicable) and provides the Company Shareholders with sufficient information to permit them to form a reasoned judgement concerning the matters to be placed before the Company Meeting. Without limiting the generality of the foregoing, the Company Circular must include: (i) a copy of the Fairness Opinions, (ii) a statement that the Special Committee has received the Fairness Opinions, and has, after receiving legal and financial advice, unanimously recommended that the Board approve the Arrangement Agreement and that the Company Shareholders vote in favour of the Arrangement Resolution and the Preferred Shareholder Resolution, as applicable, (iii) a statement that the Board has received the Fairness Opinions, and has unanimously, after receiving legal and financial advice and the recommendation of the Special Committee, determined that the Arrangement Resolution is in the best interests of the Company and recommends that the Company Shareholders vote in favour of the Arrangement Resolution and the Preferred Shareholder Resolution, as applicable (the "**Board Recommendation**") and (iv) a statement that each director and executive officer of the Company intends to vote all of such individual's Company Shares in favour of the Arrangement Resolution and the Preferred Shareholder Resolution, as applicable.

(3) The Company shall give the Purchaser and its legal counsel a reasonable opportunity to review and comment on drafts of the Company Circular and other related documents, and shall give reasonable consideration to any comments made by the Purchaser and its counsel, and agrees that all information relating solely to the Purchaser included in the Company Circular must be in a form and content satisfactory to the Purchaser or the Parent, acting reasonably.

(4) Each of the Parent and the Purchaser shall provide all necessary information concerning the Parent and the Purchaser that is required by Law to be included by the Company in the Company Circular or other related documents to the Company in writing, and shall ensure that such information does not contain any Misrepresentation.

(5) Each Party shall promptly notify the other Parties if, at any time before the Effective Date, it becomes aware (in the case of the Purchaser, only in respect of information relating to the Purchaser or the Parent) that the Company Circular contains a Misrepresentation, or otherwise requires an amendment or supplement. The Parties shall cooperate in the preparation of any such amendment or supplement as required or appropriate, and the Company shall promptly mail, file or otherwise publicly disseminate any such amendment or supplement to the Company Shareholders and, if required by the Court or by Law, file the same with the Securities Authorities or any other Governmental Entity as required.

**Section 2.5 Final Order**

If the Interim Order is obtained and the Arrangement Resolution is passed at the Company Meeting as provided for in the Interim Order, the Company shall take all steps necessary or desirable to submit the Arrangement to the Court and diligently pursue an application for the Final Order pursuant to Chapter XVI – Division II of the QBCA, as soon as reasonably practicable, but in any event not later than five Business Days after the Arrangement Resolution is passed at the Company Meeting.

**Section 2.6 Court Proceedings**

Subject to the terms of this Agreement, the Purchaser and the Parent shall cooperate with, assist and consent to the Company seeking the Interim Order and the Final Order, including by providing the Company on a timely basis any information regarding the Purchaser or the Parent as required by Law to be supplied by the Purchaser or the Parent in connection therewith. In connection with all Court proceedings relating to obtaining the Interim Order and the Final Order, the Company shall:

(1) diligently pursue, and cooperate with the Purchaser in diligently pursuing, the Interim Order and the Final Order;

(2) provide the Purchaser and its legal counsel with a reasonable opportunity to review and comment upon drafts of all material to be filed with the Court in connection with the Arrangement, and give reasonable and due consideration to all comments of the Purchaser and its legal counsel;

(3) provide legal counsel to the Purchaser on a timely basis with copies of any notice of appearance, evidence or other documents served on the Company or its legal counsel in respect of the application for the Interim Order or the Final Order or any appeal therefrom, and any notice, written or oral, indicating the intention of any Person to appeal, or oppose the granting of, the Interim Order or the Final Order;

(4) ensure that all material filed with the Court in connection with the Arrangement is consistent in all material respects with the terms of this Agreement and the Plan of Arrangement;

(5) subject to applicable Law, not file any material with the Court in connection with the Arrangement or serve any such material, or agree to modify or amend any material so filed or served, except as contemplated by this Agreement or with the Purchaser's prior written consent, which consent shall not be unreasonably withheld, delayed or conditioned, provided that nothing herein shall require the Purchaser to agree or consent to any increase in, or variation of the form of, the Consideration or other modification or amendment to such filed or served materials that expands or increases the Purchaser's obligations, or diminishes or limits the Purchaser's rights, set forth in any such filed or served materials or under this Agreement;

(6) oppose any proposal from any Person that the Final Order contain any provision inconsistent with this Agreement, and if, at any time after the issuance of the Final Order and prior to the Effective Time, the Company is required by the terms of the Final Order or by Law to return to Court with respect to the Final Order, do so only after notice to, and in consultation and cooperation with, the Purchaser; and

(7) not object to legal counsel to the Purchaser making such submissions on the application for the Interim Order and the application for the Final Order as such counsel considers appropriate, acting reasonably, provided the Purchaser's legal counsel advises the Company of the nature of such submissions at least the day before the hearing and such submissions are consistent with this Agreement and the Plan of Arrangement.

**Section 2.7 Incentive Compensation Plans and Purchaser Compensation Covenants**

(1) Subject to the terms and conditions of this Agreement, pursuant to the Arrangement, the Company will take all reasonable steps necessary or desirable to acquire and/or cancel the securities identified below that are outstanding immediately prior to the Effective Time and in exchange for such acquisition and/or cancellation will pay the amounts set out below to the holders of such securities, subject to withholding taxes where applicable:

(a) in respect of each Option, whether vested or unvested, an amount equal to the Consideration per Common Share less the applicable exercise price in respect of such Option (for greater certainty, where such amount is a negative, neither the Company nor the Purchaser shall be obligated to pay the holder of such Option any amount in respect of such Option); and

(b) in respect of each DSU, RSU or PSU, whether vested or unvested, an amount equal to the Consideration per Common Share, except that the Consideration per Common Share in respect of each PSU granted in calendar 2013 shall be multiplied by the applicable level of achievement percentage determined by the Company's Human Resources and Compensation Committee of the Company in accordance with the terms of the Share Unit Plans and the PSU agreements awarding such PSUs. For greater certainty, in respect of PSUs awarded during calendar 2013 which will not have fully vested in accordance with their terms prior to the next regularly scheduled meeting of the Company's Human Resources and Compensation Committee, the determination by the Company's Human Resources and Compensation Committee of the performance level of such PSUs shall be made on the basis that such PSUs vested immediately prior to the date of such determination.

(2) All Options, DSUs, RSUs and PSUs outstanding on the Effective Time shall be deemed terminated in accordance with the Plan of Arrangement.

(3) The Parties acknowledge that no deduction will be claimed by the Company in respect of any payment made to a holder of Options in respect of the Options pursuant to the Plan of Arrangement who is a resident of Canada or who is employed in Canada (both within the meaning of the Tax Act) in computing the Company's taxable income under the Tax Act, and the Company shall: (i) where applicable, make an election pursuant to subsection 110(1.1) of the Tax Act in respect of the cash payments made in exchange for the surrender of Options, and (ii) provide evidence in writing of such election to holders of Options, it being understood that holders of Options shall be entitled to claim any deductions available to such persons pursuant to the Tax Act in respect of the calculation of any benefit arising from the surrender of Options.

(4) Unless otherwise agreed in writing between the Parties, for a period of one year from the Effective Date, each of the Parent and the Purchaser covenant and agree, and after the Effective Time will cause the Company and any successor to the Company to covenant and agree that the Company Employees, unless their employment is terminated, shall be provided with compensation not less than, and benefits that are, in the aggregate, no less favourable than, those provided to such Company Employees immediately prior to the Effective Time.

(5) Each of the Parent and the Purchaser covenant and agree, and after the Effective Time will cause the Company and any successor to the Company, to honour and comply in all material respects with the terms of all existing employment, indemnification, change in control, severance, termination or other compensation agreements and employment and severance obligations of the Company or any of its Subsidiaries and all obligations of the Company and its Subsidiaries under the Employee Plans.

(6) Each of the Parent and the Purchaser agree and acknowledge that the Company shall institute special retention and/or transition bonus programs in connection with the Arrangement, the particulars of which have been set forth in Section 2.7(6) of the Company Disclosure Letter and, subject to completion of the Arrangement, each of the Parent and the Purchaser covenant and agree to cause the Company to allocate and pay out to the eligible Company Employees bonus amounts pursuant to the terms of such special retention and/or transition bonus programs.

(7) Notwithstanding anything in this Section 2.7 to the contrary, the terms of this Section 2.7 shall not apply to any Company Employee who is covered by a Collective Agreement and instead, the terms and conditions of employment of each such Company Employee following the Effective Time shall be governed by the terms of the applicable Collective Agreement.

**Section 2.8 Articles of Arrangement and Effective Date**

(1) The Articles of Arrangement shall implement the Plan of Arrangement. The Articles of Arrangement shall include the form of the Plan of Arrangement attached to this Agreement as Schedule A, as it may be amended from time to time by written agreement of the Parties hereto.

(2) The Company shall file the Articles of Arrangement with the Enterprise Registrar as soon as reasonably practicable and in any event within five (5) Business Days after the satisfaction or, where not prohibited, the waiver by the applicable Party or Parties in whose favour the condition is, of the conditions set out in Article 6 (excluding conditions that, by their terms, cannot be satisfied until the Effective Date, but subject to the satisfaction or, where not prohibited, the waiver by the applicable Party or Parties in whose favour the condition is, of those conditions as of the Effective Date), unless another time or date is agreed to in writing by the Parties.

(3) From and after the Effective Time, the Plan of Arrangement shall have all of the effects provided by applicable Law, including the QBCA. The closing of the Arrangement will take place at the offices of Stikeman Elliott LLP, or at such other location as may be agreed upon by the Parties.

**Section 2.9 Payment of Consideration**

The Purchaser shall, immediately prior to the filing by the Company of the Articles of Arrangement with the Enterprise Registrar, provide the Depositary with sufficient funds to be held in escrow (the terms and conditions of such escrow to be satisfactory to the Company and the Purchaser, each acting reasonably) to satisfy: (i) the aggregate Consideration for the Common Shares as provided in the Plan of Arrangement and, (ii) if the Preferred Shareholder Resolution is passed, the aggregate Consideration for the Preferred Shares as provided in the Plan of Arrangement.

**Section 2.10 Withholding Taxes**

The Purchaser, the Company and the Depositary, as applicable, shall be entitled to deduct and withhold from any consideration otherwise payable or otherwise deliverable to any Company Securityholders under the Plan of Arrangement such amounts as the Purchaser, the Company or the Depositary, as applicable, are required or reasonably believe to be required to deduct and withhold from such consideration under any provision of any Laws in respect of Taxes. Any such amounts will be deducted, withheld and remitted from the consideration payable pursuant to the Plan of Arrangement and shall be treated for all purposes under this Agreement as having been paid to the Company Securityholders in respect of which such deduction, withholding and remittance was made; provided that such deducted and withheld amounts are actually remitted to the appropriate Governmental Entity.

**Section 2.11 Parent Guarantee**

The Parent hereby unconditionally and irrevocably guarantees in favour of the Company, the due and punctual performance by the Purchaser of the Purchaser's obligations under this Agreement and the Plan of Arrangement. The Parent hereby agrees that the Company shall not have to proceed first against the Purchaser in respect of any such matter before exercising its rights under this guarantee against the Parent and agrees to be liable for all guaranteed obligations as if it were the principal obligor of such obligations.

## ARTICLE 3
## REPRESENTATIONS AND WARRANTIES

**Section 3.1 Representations and Warranties of the Company**

(1) Except as set forth in the Company Disclosure Letter (it being expressly understood and agreed that the disclosure of any fact or item in the Company Disclosure Letter shall only be deemed to be an exception to (or, as applicable, disclosure for the purposes of) the representations and warranties of the Company that are contained in the corresponding Paragraph of Schedule D and any other representations or warranties of the Company only to the extent that the relevance of such disclosed fact or item to such other representation or warranty is reasonably apparent on its face), the Company represents and warrants to the Purchaser and to the Parent as set forth in Schedule D and acknowledges and agrees that the Purchaser and the Parent are relying upon such representations and warranties in connection with the entering into of this Agreement.

(2) Except for the representations and warranties set forth in this Agreement, neither the Company nor any other Person has made or makes any other express or implied representation and warranty, either written or oral, on behalf of the Company. In particular, without limiting the foregoing disclaimer, except for the representations and warranties made by the Company in this Agreement as set forth in Schedule D, neither the Company nor any other Person makes or has made any representation or warranty to the Parent or any of its Representatives, with respect to (a) any financial projection, forecast, estimate, budget or prospective information relating to the Company, any of the Company's Subsidiaries or their respective businesses or operations or (b) any oral or written information furnished or made available to the Parent or any of its Representatives in the course of their due diligence investigation of Company, the negotiation of this Agreement or the consummation of the Arrangement and the other transactions contemplated by this Agreement, including the accuracy, completeness or currentness thereof, and neither the Company nor any other Person will have any liability to the Parent or any other Person in respect of such information, including any subsequent use of such information, except in the case of fraud.

(3) The representations and warranties of the Company contained in this Agreement shall not survive the completion of the Arrangement and shall expire and be terminated on the earlier of the Effective Time and the date on which this Agreement is terminated in accordance with its terms. This Section 3.1(3) will not limit any covenant or agreement of any of the Parties, which, by its terms, contemplates performance after the Effective Time or the date on which this Agreement is terminated, as the case may be.

(4) The Company shall be permitted to include an express cross-reference to an item in the Company Filings in the Company Disclosure Letter provided that the disclosure in the Company Filings that is expressly cross-referenced is meaningful and not misleading and further provided that no qualification or disclosure shall include any reference to any forward-looking information or anything in the risk factors section of the Company Filings or similar language contained therein. The mere inclusion of any item in any section or subsection of the Company Disclosure Letter as an exception to any representation or warranty or otherwise shall not be deemed to constitute an admission by the Company, or to otherwise imply, that any such item has had or would reasonably be expected to have a Material Adverse Effect, or otherwise represents an exception or material fact, circumstance, change, effect, event or occurrence for the purposes of this Agreement, or that such item meets or exceeds a monetary or other threshold specified for disclosure in this Agreement.

**Section 3.2 Representations and Warranties of the Parent and the Purchaser**

(1) The Parent and the Purchaser jointly and severally represent and warrant to the Company as set forth in Schedule E and acknowledge and agree that the Company is relying upon such representations and warranties in connection with the entering into of this Agreement.

(2) Except for the representations and warranties set forth in this Agreement, neither the Parent nor the Purchaser nor any other Person has made or makes any other express or implied representation and warranty, either written or oral, on behalf of the Parent or the Purchaser.

(3) The representations and warranties of the Parent and the Purchaser contained in this Agreement shall not survive the completion of the Arrangement and shall expire and be terminated on the earlier of the Effective Time and the date on which this Agreement is terminated in accordance with its terms. This Section 3.2(3) will not limit any covenant or agreement of any of the Parties, which, by its terms, contemplates performance after the Effective Time or the date on which this Agreement is terminated, as the case may be.

## ARTICLE 4
## COVENANTS

**Section 4.1 Conduct of Business of the Company**

(1) The Company covenants and agrees that, during the period from the date of this Agreement until the earlier of the Effective Time and the time that this Agreement is terminated in accordance with its terms, except (i) with the express prior written consent of the Purchaser, acting reasonably, (ii) as required by Law or a Governmental Entity, (iii) as required or permitted by this Agreement, (iv) as contemplated by the Company 2016 Budget, or (v) as contemplated by Section 4.1(1) of the Company Disclosure Letter, (A) the Company shall, and shall cause each of its Subsidiaries to, conduct its business in the Ordinary Course and in accordance with applicable Law, use its

reasonable commercial efforts to maintain and preserve intact the current business organization, assets, properties and business of the Company and its Subsidiaries, keep available the services of the present employees and agents of the Company and its Subsidiaries and maintain good relations with, and the goodwill of, suppliers, customers, landlords, creditors, distributors, dealer-owners and all other Persons having business relationships with the Company and its Subsidiaries, and (B) the Company shall not, and shall not permit any of its Subsidiaries to, directly or indirectly:

(a) amend its articles of incorporation, articles of amalgamation or by-laws or, in the case of any Subsidiary which is not a corporation, its similar organizational documents;

(b) split, combine or reclassify any shares of the Company or of any Subsidiary;

(c) except as disclosed in Section 4.1(1)(c) of the Company Disclosure Letter, redeem, repurchase, or otherwise acquire or offer to redeem, repurchase or otherwise acquire any shares of capital stock of the Company or any of its Subsidiaries;

(d) issue, grant, deliver, sell, pledge or otherwise encumber, or authorize the issuance, grant, delivery, sale, pledge or other encumbrance of any shares of capital stock, securities, options, warrants or similar rights exercisable or exchangeable for or convertible into such capital stock, of the Company or any of its Subsidiaries, except for (i) the issuance of Preferred Shares upon the conversion of currently outstanding Preferred Shares in accordance with their terms, (ii) the issuance of Common Shares issuable upon the exercise of the currently outstanding Options specified in Section 4.1(1)(d)(ii) of the Company Disclosure Letter, (iii) pursuant to outstanding PSUs or RSUs in accordance with the terms of the Share Unit Plans, (iv) the grant of Options, RSUs, PSUs or DSUs in the Ordinary Course for the annual grant of such options and awards as described in Section 4.1(1)(d)(iv) of the Company Disclosure Letter, or (v) the issuance of Common Shares to new or existing dealer-owners pursuant to their respective commercial licence agreements and ancillary documents with the Company;

(e) other than as provided for in Section 4.1(1)(e) of the Company Disclosure Letter acquire (by merger, consolidation, acquisition of stock or assets or otherwise), directly or indirectly, in one transaction or in a series of related transactions, assets, securities, properties, interests or businesses (other than in the Ordinary Course, such as the purchase of supplies, equipment and inventory) having a cost, on a per transaction or series of related transactions basis, in excess of $3,000,000 and subject to a maximum of $10,000,000 for all such transactions;

(f) reorganize, amalgamate or merge the Company, or, to the extent prejudicial to the Arrangement or to the Purchaser, any Subsidiary;

(g) reduce the stated capital of the shares of the Company or any of its Subsidiaries;

(h) adopt a plan of liquidation or resolutions providing for the liquidation or dissolution of the Company or any of its Subsidiaries;

(i) except as disclosed in Section 4.1(1)(i) of the Company Disclosure Letter, sell, pledge, lease, dispose of, surrender, lose the right to use, mortgage, license, encumber or otherwise dispose of or transfer any assets of the Company or of any of its Subsidiaries or any interest in any assets of the Company or its Subsidiaries having a value greater than $3,000,000 in the aggregate, other than inventory sold in the Ordinary Course and other than leases for a partial and temporary occupancy by a third party of an Owned Property in the Ordinary Course;

(j) other than as reflected in the Company 2016 Budget, make any capital expenditure or commitment to do so which individually or in the aggregate exceeds $3,000,000;

(k) except as disclosed in Section 4.1(1)(k) of the Company Disclosure Letter, make any material Tax election, information schedule, return or designation, except as required by Law and in a manner consistent with past practice, settle or compromise any material Tax claim, assessment, reassessment or liability, file any amended Tax Return, enter into any material agreement with a Governmental Entity with respect to Taxes, surrender any right to claim a material Tax abatement, reduction, deduction, exemption, credit or refund, consent to the extension or waiver of the limitation period applicable to any material Tax matter or materially amend or change any of its methods or reporting income, deductions or accounting for income Tax purposes except as may be required by Law;

(l) make any loan or advance to, or any capital contribution or investment in, or assume, guarantee or otherwise become liable with respect to the liabilities or obligations of any Person, other than the Company, any wholly-owned Subsidiary of the Company or dealer-owners in the Ordinary Course, in an amount on a per transaction or series of related transactions basis in excess of $3,000,000 individually and $10,000,000 in the aggregate;

(m) prepay any long-term indebtedness before its scheduled maturity or increase, create, incur, assume or otherwise become liable, in one transaction or in a series of related transactions, with respect to any indebtedness for borrowed money or guarantees thereof

in an amount, on a per transaction or series of related transactions basis, in excess of $3,000,000 other than (i) in connection with advances or repayments in the Ordinary Course under the Company's or any Subsidiary's existing credit facilities, (ii) indebtedness entered into in the Ordinary Course, (iii) in connection with the scheduled repayment of indebtedness pursuant to the Company's term loans and debentures outstanding on the date of this Agreement or (iv) indebtedness owing by one wholly-owned Subsidiary of the Company to the Company or another wholly-owned Subsidiary of the Company or of the Company to another wholly-owned Subsidiary of the Company; provided that any indebtedness created, incurred, refinanced, assumed or for which the Company or any Subsidiary becomes liable in accordance with the foregoing shall be prepayable at the Effective Time without premium, penalty or other incremental costs (including breakage costs) in excess of $1,000,000, in the aggregate;

(n) enter into any equity or commodity swaps, hedges, derivatives, forward sales contracts or similar financial instruments or, except in the Ordinary Course, enter into any interest rate or currency swaps, hedges, derivatives, forward sales contracts or similar financial instruments;

(o) make any bonus or profit sharing distribution or similar payment of any kind, other than in accordance with an Employee Plan, as provided in the Company 2016 Budget or as disclosed in Section 4.1(1)(o) of the Company Disclosure Letter, or except as may be required by the terms of a Collective Agreement;

(p) make any material change in the Company's methods of accounting, except as required by concurrent changes in GAAP or pursuant to written instructions, comments or orders of a Securities Authority;

(q) grant any general increase in the rate of wages, salaries, bonuses or other remuneration of any Company Employees, other than as disclosed in Section 4.1(1)(o) and Section 4.1(1)(q) of the Company Disclosure Letter, or as may be required by the terms of a Collective Agreement;

(r) except as required by Law or as disclosed in Section 4.1(1)(r) of the Company Disclosure Letter: (i) adopt, enter into or amend any Employee Plan (other than in conjunction with entering into an employment agreement in the Ordinary Course with a new employee who was not employed by the Company or a Subsidiary on the date of this Agreement); (ii) pay any benefit to any director or officer of the Company or any of its Subsidiaries or to any Company Employee that is not required under the terms of any Employee Plan in effect on the date of this Agreement; (iii) grant, accelerate, increase or otherwise amend any payment, award or other benefit payable to, or for the benefit of, any director or officer of the Company or any of its Subsidiaries or to any Company Employee (other than in the Ordinary Course or as provided herein); (iv) make any material determination under any Employee Plan that is not in the Ordinary Course; or (v) take or propose any action to effect any of the foregoing;

(s) cancel, waive, release, assign, settle or compromise any material claims or rights other than insured claims;

(t) commence, waive, release, assign, settle or compromise any litigation, proceedings or governmental investigations in excess of an amount of $1,000,000 individually or $2,500,000 in the aggregate or which would reasonably be expected to impede, prevent or delay the consummation of the transactions contemplated by this Agreement, other than insured claims;

(u) except as disclosed in Section 4.1(1)(u) of the Company Disclosure Letter and other than entering into new Leases that represent less than $3,000,000 in total future payments individually or $10,000,000 in the aggregate, amend or modify or terminate or waive any material right under any Material Contract or enter into any contract or agreement that would be a Material Contract if in effect on the date hereof, provided that the foregoing shall not apply in respect of any Contract with customers, dealers or suppliers relating to the purchase or supply of goods or the purchase or sale of inventory or services by the Company or any of its Subsidiaries, in each case, in the Ordinary Course, which would not be a Material Contract pursuant to clauses (i) through (iv) or (vi) through (xii) of the definition thereof;

(v) except as required by Law, enter into, amend or modify any union recognition agreement, Collective Agreement or similar agreement with any trade union or representative body, other than those listed in Section 3.1(34)(a) of the Company Disclosure Letter;

(w) except as contemplated in Section 4.9 and except for scheduled renewals in the Ordinary Course, amend, modify, terminate, cancel or let lapse any material insurance (or re-insurance) policy of the Company or any Subsidiary in effect on the date of this Agreement, unless simultaneously with such termination, cancellation or lapse, replacement policies underwritten by insurance and re-insurance companies of nationally recognized standing providing coverage equal to or greater than the coverage under the terminated, cancelled or lapsed policies for substantially similar premiums are in full force and effect;

(x) in respect of any Company Assets, waive, release, surrender, let lapse, grant or transfer any material right or value or amend, modify or change, or agree to amend, modify or change, in any material respect any existing material Authorization, production sharing agreement, Intellectual Property, other than in the Ordinary Course;

(y) abandon or fail to diligently pursue any application for any material Authorizations or registrations or take any action, or fail to take any action, that could lead to the termination of any material Authorizations or registrations;

(z) enter into or amend any Contract with any broker, finder or investment banker (other than a real estate broker), including any amendment of any of the Contracts listed in Section 4.1(1)(z) of the Company Disclosure Letter, provided that the foregoing shall not prohibit the Company from entering into an agreement with any dealer and proxy solicitation services firm for purposes of soliciting proxies in connection with the Arrangement; or

(aa) authorize, agree, resolve or otherwise commit, whether or not in writing, to do any of the foregoing.

(2) If, on or after the date of this Agreement, the Company declares or pays any dividend or other distribution on the Company Shares prior to the Effective Time (other than Permitted Dividends), the Consideration per Company Share shall be reduced by the amount of such dividends or distributions.

**Section 4.2 Covenants of the Company Relating to the Arrangement**

(1) The Company shall perform, and shall cause its Subsidiaries to perform, all obligations required or desirable to be performed by the Company or any of its Subsidiaries under this Agreement, cooperate with the Purchaser and the Parent in connection therewith, and do all such other commercially reasonable acts and things as may be necessary or desirable in order to consummate and make effective, as soon as reasonably practicable, the transactions contemplated by this Agreement and, without limiting the generality of the foregoing, the Company shall and, where appropriate, shall cause each of its Subsidiaries to:

(a) use all commercially reasonable efforts to satisfy all conditions precedent in this Agreement and take all steps set forth in the Interim Order and Final Order applicable to it;

(b) use all commercially reasonable efforts to obtain and maintain all third party or other consents, waivers, permits, exemptions, orders, approvals, agreements, amendments or confirmations that are (A) necessary to be obtained under the Material Contracts in connection with the Arrangement or (B) required in order to maintain the Material Contracts in full force and effect following completion of the Arrangement, in each case, on terms that are reasonably satisfactory to the Purchaser, and without paying, and without committing itself or the Purchaser to pay, any consideration or incur any liability or obligation without the prior written consent of the Purchaser;

(c) use all commercially reasonable efforts to effect all necessary registrations, filings and submissions of information required by Governmental Entities from the Company and its Subsidiaries relating to the Arrangement;

(d) use all commercially reasonable efforts to, upon reasonable consultation with the Purchaser, oppose, lift or rescind any injunction, restraining or other order, decree, judgment or ruling seeking to restrain, enjoin or otherwise prohibit or adversely affect the consummation of the Arrangement and defend, or cause to be defended, any proceedings to which it is a party or brought against it or its directors or officers challenging the Arrangement or this Agreement;

(e) not take any action, or refrain from taking any commercially reasonable action, or permitting any action to be taken or not taken, which is inconsistent with this Agreement or which would reasonably be expected to prevent, materially delay or otherwise impede the consummation of the Arrangement or the transactions contemplated by this Agreement;

(f) assist in obtaining the resignations and releases (in a form satisfactory to the Purchaser, acting reasonably) of each member of the Board and each member of the board of directors of the Company's Subsidiaries, and causing them to be replaced by Persons nominated by the Purchaser effective as of the Effective Time; and

(g) use all commercially reasonable efforts to cause each of its directors to comply with and perform his or her obligations under their respective Voting Agreement.

(2) The Company shall promptly notify the Purchaser in writing of:

(a) any Material Adverse Effect or any change, effect, event, development, occurrence, circumstance or state of facts which could reasonably be expected to have a Material Adverse Effect, subject to compliance with applicable competition or antitrust Laws;

(b) any notice or other communication from any Person alleging that the consent (or waiver, permit, exemption, order, approval, agreement, amendment or confirmation) of such Person (or another Person) is or may be required in connection with this Agreement or the Arrangement;

(c) any notice or other communication from any supplier, marketing partner, licensor of Intellectual Property or Technology, customer, distributor, dealer-owner or reseller to the effect that such supplier, marketing partner, licensor of Intellectual Property or Technology, customer, distributor, dealer-owner or reseller is terminating, may terminate or is otherwise materially adversely modifying or may materially adversely modify its relationship with the Company or any of its Subsidiaries as a result of this Agreement or the Arrangement;

(d) any notice or other communication from a customer alleging a defect or claim in respect of any products supplied or sold by the Company or its Subsidiaries to the customer which is reasonably likely to be reflective of a material recurring product defect, to lead to a product recall or to form the basis for a potential class action recourse by customers;

(e) any notice or other communication from any bargaining agent representing Company Employees giving notice to bargain and as permitted by Law, copies of any proposals tabled by any such bargaining agent that, if implemented, would materially modify the terms of a Collective Agreement;

(f) any notice or other communication from any Governmental Entity in connection with the Agreement (and, subject to Law, contemporaneously provide a copy of any such written notice or communication to the Purchaser); or

(g) any material filing, actions, suits, claims, investigations or proceedings commenced or, to its knowledge, threatened against, relating to or involving or otherwise affecting the Company, its Subsidiaries or the Company Assets.

(3) The Company will, in all material respects, subject to applicable Law, conduct itself so as to keep the Purchaser and the Parent informed as to the material decisions outside of the Ordinary Course required to be made or actions required to be taken outside of the Ordinary Course with respect to the operation of its business, provided that such disclosure is not otherwise prohibited by reason of confidentiality obligation owed to a third party in which case it will be provided, subject to Law, to the Purchaser's outside counsel on an "external counsel" basis.

(4) The Company shall keep the Purchaser informed of the status of any ongoing collective bargaining negotiations with any union between the date of the Agreement and the Effective Time and provide the Purchaser with copies of all material documents tabled by either party in the course of collective bargaining negotiations, in a timely fashion during said designed period.

(5) The Company shall discharge the Liens listed in Section 3.1(27)(k) of the Company Disclosure Letter and to deliver to the Purchaser satisfactory evidence of same.

**Section 4.3 Covenants of the Purchaser and the Parent Relating to the Arrangement**

(1) Each of the Purchaser and the Parent shall perform all obligations required or desirable to be performed by it under this Agreement, cooperate with the Company in connection therewith, and do all such other commercially reasonable acts and things as may be necessary or desirable in order to consummate and make effective, as soon as reasonably practicable, the transactions

contemplated by this Agreement and, without limiting the generality of the foregoing, each of the Purchaser and the Parent shall:

(a) use all commercially reasonable efforts to satisfy all conditions precedent in this Agreement and take all steps set forth in the Interim Order and Final Order applicable to it;

(b) use all commercially reasonable efforts to effect all necessary registrations, filings and submissions of information required by Governmental Entities from it relating to the Arrangement;

(c) use all commercially reasonable efforts, upon reasonable consultation with the Company, to oppose, lift or rescind any injunction, restraining or other order, decree, judgment or ruling seeking to restrain, enjoin or otherwise prohibit or adversely affect the consummation of the Arrangement and defend, or cause to be defended, any proceedings to which it is a party or brought against it or its directors or officers challenging the Arrangement or this Agreement; and

(d) subject to Section 4.4 in respect of Regulatory Approvals, not take any action, or refrain from taking any commercially reasonable action, or permit any action to be taken or not taken, which is inconsistent with this Agreement or the Arrangement or which would reasonably be expected to prevent, delay or otherwise impede the consummation of the Arrangement or the transactions contemplated by this Agreement, provided that nothing in this Agreement prevents the Purchaser and the Parent and all of their affiliates from conducting business in the ordinary course.

(2) In addition, in connection with the Debentures: (i) to the extent the Effective Time shall have occurred before October 20, 2016, being the date on which the Debentures are due, each of the Purchaser and the Parent covenant and agree, and after the Effective Time will cause the Company and any successor to the Company to covenant and agree, to cause the Company to take all such actions as are necessary in order to ensure that the Company has the necessary available funds to effect the repayment at maturity of the Debentures in accordance with their terms, and (ii) each of the Purchaser and the Parent covenant and agree to ensure compliance with the trust indenture dated as of October 20, 2006 among the Company, Computershare Trust Company of Canada and the guarantors thereto.

(3) Each of the Purchaser and the Parent shall promptly notify the Company in writing of (i) any notice or other communication from any Person alleging that the consent (or waiver, permit, exemption, order, approval, agreement, amendment or confirmation) of such Person (or another Person) is or may be required in connection with this Agreement or the Arrangement, or (ii) any material filings, actions, suits, claims, investigations or proceedings commenced or, to its knowledge, threatened against, relating to or involving the Parent or the Purchaser that relate to this Agreement or the Arrangement, in the case of each of (i) and (ii) to the extent that such

notice, communication, filing, action, suit, claim, investigation or proceeding would reasonably be expected to impair, impede, materially delay or prevent the Parent or the Purchaser from performing their obligations under this Agreement.

**Section 4.4 Regulatory Approvals**

(1) As soon as reasonably practicable but not later than 15 Business Days after the date hereof:

(a) (i) the Purchaser and the Company shall each file with the Commissioner of Competition the notice and information required under Subsection 114(1) of the Competition Act, and (ii) the Purchaser shall file with the Commissioner of Competition a submission requesting that an advance ruling certificate be issued under Section 102 of the Competition Act or, in the alternative, that the Commissioner of Competition issue a No Action Letter in respect of the transactions contemplated by this Agreement;

(b) the Purchaser will file an application for review pursuant to Part IV of the ICA with the Industry Minister in respect of the transactions contemplated by this Agreement; and

(c) the Purchaser will file an application for review pursuant to Part IV of the ICA with the Heritage Minister in respect of the transactions contemplated by this Agreement.

(2) The Parties shall cooperate in good faith to obtain the Regulatory Approvals but, in the case of a disagreement over the strategy, tactics or decisions relating to obtaining the Regulatory Approvals, the Parent and the Purchaser shall have the final and ultimate authority over the appropriate strategy, tactics and decisions. To this end the Parties shall cooperate in connection with obtaining the Regulatory Approvals including providing or submitting on a timely basis, and as promptly as practicable, all documentation and information that is required, or in the opinion of the Purchaser, acting reasonably, advisable, and shall cooperate in the preparation and submission of all applications, notices, filings, and submissions to Governmental Entities.

(3) Subject to Section 4.4(4), each Party will:

(a) promptly inform the other Party of any material communication received by that Party in respect of obtaining or concluding the Regulatory Approvals;

(b) use commercially reasonable efforts to respond promptly to any request or notice from any Governmental Entity requiring the Parties, or any one of them, to supply additional information that is relevant to the review of the transactions contemplated by this Agreement in respect of obtaining or concluding the Regulatory Approvals;

(c) permit the other Party to review in advance any proposed applications, notices, filings and submissions to Governmental Entities (including responses to requests for information and inquiries from any Governmental Entity) in respect of obtaining or concluding the Regulatory Approvals, and will provide the other Parties a reasonable opportunity to comment thereon and consider those comments in good faith;

(d) promptly provide the other Party with any filed copies of applications, notices, filings and submissions, (including responses to requests for information and inquiries from any Governmental Entity) that were submitted to a Governmental Entity in respect of obtaining or concluding the Regulatory Approvals;

(e) not participate in any substantive meeting or discussion (whether in person, by telephone or otherwise) with Governmental Entities in respect of obtaining or concluding the Regulatory Approvals unless it consults with the other Party in advance and gives the other Party or its legal counsel the opportunity to attend and participate thereat, unless a Governmental Entity requests otherwise; and

(f) keep the other Party promptly informed of the status of discussions relating to obtaining or concluding the Regulatory Approvals.

(4) Notwithstanding any other requirement in this Section 4.4, where a Party (a "**Disclosing Party**") is required under this Section 4.4 to provide information to another Party (a "**Receiving Party**") that the Disclosing Party deems to be competitively sensitive information or otherwise reasonably determines in respect thereof that disclosure should be restricted, the Disclosing Party may restrict the provision of such competitively sensitive and other information only to external legal counsel of the Receiving Party, provided that the Disclosing Party also provides the Receiving Party a redacted version of such information which does not contain any such competitively sensitive or other restricted information.

(5) The Parent and the Purchaser shall use their commercially reasonable efforts to obtain the Regulatory Approvals. For greater certainty, in relation to the ICA Approvals, commercially reasonable efforts shall require that: (i) the application for review submitted by the Parent and the Purchaser include a package of substantial proposed undertakings; and, (ii) if required to secure ICA Approvals, the Parent and the Purchaser agree to propose enhanced and/or additional commitments that are acceptable to the Parent and the Purchaser, acting in good faith and reasonably. For greater certainty, in relation to the Competition Act Approval, commercially reasonable efforts shall not require the Parent and the Purchaser to take any action, and shall not permit the Company to take any action without the express written consent of the Purchaser and the Parent, that would result in a material negative impact on the Company, the Parent and the Purchaser, taken together.

(6) In no circumstance shall the Company state or suggest that the Purchaser and the Parent are prepared to provide or agree to particular undertakings or requirements without the prior consent of the Purchaser and the Parent.

(7) The Parent and the Purchaser will pay the government filing fee required in connection with making a filing under the Competition Act.

**Section 4.5 Access to Information; Confidentiality**

(1) From the date hereof until the earlier of the Effective Time and the termination of this Agreement, subject to applicable Law and the terms of any existing Contracts, and strictly for the purposes of business integration, the Company shall, upon reasonable prior notice: (a) give the Purchaser and the Parent and their respective officers, employees, advisors and representatives reasonable access during normal business hours to its and its Subsidiaries' offices, properties, officers, books and records; and (b) furnish to the Purchaser and the Parent and their respective officers, employees, advisors and representatives such financial and operating data or other information with respect to the assets or business of the Company as the Purchaser may reasonably request, including for the purpose of facilitating integration planning; provided that the Company's compliance with any request under this Section 4.5(1) shall not unduly interfere with the conduct of the Company's business. Without limiting the foregoing: (a) the Purchaser and the Parent and their officers, employees, agents, advisors, representatives, lenders and potential lenders shall, upon reasonable prior notice, have the right to conduct inspections of each of the Owned Properties and Leased Properties; and (b) the Company shall, upon either of the Parent's or the Purchaser's request, facilitate discussions between the Parent or the Purchaser and any third party from whom consent may be required.

(2) None of the Purchaser, the Parent or any of their representatives will contact any Company Employee, agent, customer, dealer, supplier, or other person having a business relationship with the Company except after consultation with the President and Chief Executive Officer or the Executive Vice President and Chief Financial Officer.

(3) Investigations made by or on behalf of the Purchaser, whether under this Section 4.5 or otherwise, will not waive, diminish the scope of, or otherwise affect any representation or warranty made by the Company in this Agreement.

(4) This Section 4.5 shall not require the Company or its Subsidiaries to permit any access, or to disclose any information that in the reasonable good faith judgment of the Company, after consultation with outside legal counsel, is likely to result in the breach of any Contract, any violation of any Law or cause any privilege (including attorney-client privilege) that the Company or its Subsidiaries would be entitled to assert to be undermined with respect to such information; provided that, the Parties hereto shall cooperate in seeking to find a way to allow disclosure of such information to the extent doing so could reasonably (in the good faith belief of such disclosing Party, after consultation with counsel) be managed through the use of customary "clean-room" arrangements.

(5) The Purchaser acknowledges that the Confidentiality Agreement continues to apply and that any information provided under Section 4.5(1) above that is non-public and/or proprietary in nature shall be subject to the terms of the Confidentiality Agreement; provided that to the extent any provision of the Confidentiality Agreement conflicts with the terms of this Agreement, the terms of this Agreement shall prevail. For greater certainty, if this Agreement is terminated in accordance with its terms, any obligations of the Parties and their respective representatives under the Confidentiality Agreement shall survive the termination of this Agreement in accordance with the terms of the Confidentiality Agreement.

**Section 4.6 Pre-Acquisition Reorganization**

(1) Subject to Section 4.6(2), the Company agrees that, upon request of the Purchaser, the Company shall use its commercially reasonable efforts to (i) perform such reorganizations of its corporate structure, capital structure, business, operations and assets or such other transactions as the Purchaser may request, acting reasonably (each a "**Pre-Acquisition Reorganization**"), (ii) cooperate with the Purchaser and its advisors to determine the nature of the Pre-Acquisition Reorganizations that might be undertaken and the manner in which they would most effectively be undertaken, and (iii) cooperate with the Purchaser and its advisors to seek to obtain consents or waivers which might be required from the Company's lenders under its existing credit facilities in connection with the Pre-Acquisition Reorganizations, if any, provided that any costs, fees or expenses associated therewith shall be at the Purchaser's sole expense.

(2) The Company will not be obligated to participate in any Pre-Acquisition Reorganization under Section 4.6(1) unless the Company determines in good faith that such Pre-Acquisition Reorganization:

(a) can be completed prior to the Effective Date, and can be reversed or unwound in the event the Arrangement does not become effective without adversely affecting the Company, any of its Subsidiaries, the Company Securityholders or holders of Debentures;

(b) is not prejudicial to the Company, any of its Subsidiaries, the Company Securityholders or holders of Debentures;

(c) does not impair, impede, delay or prevent the receipt of any Regulatory Approvals or the satisfaction of any conditions set forth in Article 6 or the ability of the Company, the Parent or the Purchaser to consummate, and will not materially delay the consummation of, the Arrangement;

(d) does not require the Company to obtain the approval of any Company Securityholders or holders of Debentures or, after the mailing of the Company Circular, to require any amendment thereto;

(e) is effected as close as reasonably practicable prior to the Effective Time;

(f) does not require the Company or its Subsidiaries to take any action that could reasonably be expected to result in Taxes being imposed on, or any adverse Tax or other consequences to, any Company Securityholders or holders of Debentures incrementally greater than the Taxes or other consequences to such party in connection with the completion of the Arrangement in the absence of action being taken pursuant to this Section 4.6;

(g) does not result in any material breach by the Company or any of its Subsidiaries of any Contract or any breach by the Company or any of its Subsidiaries of their respective organizational documents or Law;

(h) does not require the directors, officers, employees or agents of the Company or its Subsidiaries to take any action in any capacity other than as a director, officer, employee or agent; and

(i) shall not become effective unless the Parent and the Purchaser each has irrevocably waived or confirmed in writing the satisfaction of all conditions in its favour under Section 6.1 and Section 6.2 and shall have confirmed in writing that each of them is prepared to promptly and without condition (other than compliance with this Section 4.6) proceed to effect the Arrangement.

(3) The Purchaser must provide written notice to the Company of any proposed Pre-Acquisition Reorganization at least 15 Business Days prior to the Effective Date. Upon receipt of such notice, the Company and the Purchaser shall work cooperatively and use their commercially reasonable efforts to prepare prior to the Effective Time all documentation necessary and do such other acts and things as are necessary to give effect to such Pre-Acquisition Reorganization, including any amendment to this Agreement or the Plan of Arrangement (provided that such amendments do not require the Company to obtain approval of Company Securityholders or holders of Debentures). Such Pre-Acquisition Reorganization shall be made effective as of the last moment of the Business Day ending immediately prior to the Effective Date.

(4) The Purchaser agrees that (i) it will be responsible, pay for, reimburse and indemnify the Company and each Subsidiary, for all direct and indirect costs and expenses, losses, liabilities, fees and Taxes associated with any proposed Pre-Acquisition Reorganization (including out-of-pocket costs and expenses for filing fees and external counsel and auditors which may be incurred) and (ii) if the Arrangement is not completed as contemplated herein, it shall indemnify and save harmless the Company, its affiliates, Company Securityholders and holders of

Debentures from and against any and all direct and indirect liabilities, losses, Taxes, damages, claims, costs, expenses, interest awards, judgements and penalties suffered or incurred by any of them in connection with or as a result of any Pre-Acquisition Reorganization if after participating in any Pre-Acquisition Reorganization the Arrangement is not completed other than due to a breach by the Company of the terms and conditions of this Agreement, including any reasonable costs incurred by the Company in order to restore the organizational structure of the Company to a substantially identical structure of the Company as at the date hereof.

(5) The Purchaser and the Parent waive any breach of a representation, warranty or covenant by the Company, where such breach is a result of an action taken by the Company or a Subsidiary in good faith pursuant to a request by the Purchaser in accordance with this Section 4.6.

**Section 4.7 Public Communications**

The Parties shall cooperate in the preparation of presentations, if any, to the Company Securityholders regarding the Arrangement. A Party must not issue any press release or make any other public statement or disclosure with respect to this Agreement or the Arrangement without the consent of the other Parties (which consent shall not be unreasonably withheld, conditioned or delayed), and the Company must not make any filing with any Governmental Entity (subject in each case to the Company's overriding obligations to make any disclosure or filing required by Laws or as contemplated by Section 4.4) with respect to this Agreement or the Arrangement without the consent of the Purchaser (which consent shall not be unreasonably withheld, conditioned or delayed); provided that any Party that, in the opinion of its outside legal counsel, is required to make disclosure by Law (other than in connection with the Regulatory Approvals contemplated by Section 4.4) shall use its best efforts to give the other Parties prior oral or written notice and a reasonable opportunity to review or comment on the disclosure or filing (other than with respect to confidential information contained in such disclosure or filing). The Party making such disclosure shall give reasonable consideration to any comments made by the other Parties or their counsel, and if such prior notice is not possible, shall give such notice immediately following the making of such disclosure or filing. For greater certainty, the foregoing shall not prevent either Party from making internal announcements to employees and having discussions with Company Securityholders and financial analysts and other stakeholders so long as such statements and announcements are consistent with the most recent press releases, public disclosures or public statements made by the Parties.

**Section 4.8 Notice and Cure Provisions**

(1) Each Party shall promptly notify the other Parties of the occurrence, or failure to occur, of any event or state of facts which occurrence or failure would, or would be reasonably likely to:

(a) cause any of the representations or warranties of such Party (and, in the case of the Parent, any of the representations or warranties of the Purchaser) contained in this Agreement to be untrue or inaccurate in any material respect at any time from the date of this Agreement to the Effective Time; or

(b) result in the failure, in any material respect, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by such Party (and, in the case of the Parent, likely to result in the failure, in any material respect, to comply with or satisfy any covenant, condition or agreement to be complied with or satisfied by the Purchaser) under this Agreement.

(2) Notification provided under this Section 4.8 will not affect the representations, warranties, covenants, agreements or obligations of the Parties (or remedies with respect thereto) or the conditions to the obligations of the Parties under this Agreement.

(3) The Parent and the Purchaser may not elect to exercise their right to terminate this Agreement pursuant to Section 7.2(1)(d)(i) and the Company may not elect to exercise its right to terminate this Agreement pursuant to Section 7.2(1)(c)(i), unless the Party seeking to terminate the Agreement (the "**Terminating Party**") has delivered a written notice ("**Termination Notice**") to the other Party (the "**Breaching Party**") specifying in reasonable detail all breaches of covenants, representations and warranties or other matters which the Terminating Party asserts as the basis for termination. After delivering a Termination Notice, provided the Breaching Party is proceeding diligently to cure such matter and such matter is capable of being cured prior to the Outside Date, the Terminating Party may not exercise such termination right until the earlier of (a) the Outside Date, and (b) the date that is 15 Business Days following receipt of such Termination Notice by Breaching Party, if such matter has not been cured by such date. If the Terminating Party delivers a Termination Notice prior to the date of the Company Meeting, unless the Parties agree otherwise, the Company shall postpone or adjourn the Company Meeting to the earlier of (a) five (5) Business Days prior to the Outside Date and (b) the date that is 15 Business Days following receipt of such Termination Notice by the Breaching Party.

**Section 4.9 Insurance and Indemnification**

(1) Prior to the Effective Date, the Company shall purchase customary "tail" policies of directors' and officers' liability insurance providing protection no less favourable in the aggregate than the protection provided by the policies maintained by the Company and its Subsidiaries which are in effect immediately prior to the Effective Date and providing protection in respect of claims arising from facts or events which occurred on or prior to the Effective Date and the Purchaser will, or will cause the Company and its Subsidiaries to maintain such tail policies in effect without any reduction in scope or coverage for six (6) years from the Effective Date; provided that the Purchaser will not be required to pay any amounts in respect of such coverage prior to the Effective Time and provided further that the cost of such policies shall not exceed 200% of the Company's and its Subsidiaries' current annual aggregate premium for policies currently maintained by the Company and its Subsidiaries.

(2) The Parent and the Purchaser shall honour all rights to indemnification or exculpation now existing in favour of present and former employees, officers and directors of the Company and its Subsidiaries to the extent that they are disclosed in Section 4.9(2) of the Company Disclosure Letter, and acknowledges that such rights, to the extent that they are disclosed in Section 4.9(2) of the Company Disclosure Letter, shall survive the completion of the Plan of Arrangement and shall continue in full force and effect in accordance with their terms for a period of not less than six (6) years from the Effective Date. The provisions of this Section 4.9 shall be binding, jointly and severally, on all successors of the Purchaser and the Parent.

(3) If the Company or any of its Subsidiaries or any of their respective successors or assigns (i) consolidates or amalgamates with or merges or liquidates into any other Person and is not a continuing or surviving corporation or entity of such consolidation, amalgamation, merger or liquidation, or (ii) transfers all or substantially all of its properties and assets to any Person, the Purchaser and the Parent shall ensure that any such successor or assign (including, as applicable, any acquirer of substantially all of the properties and assets of the Company or its Subsidiaries) assumes all of the obligations set forth in this Section 4.9.

## ARTICLE 5
## ADDITIONAL COVENANTS REGARDING NON-SOLICITATION

**Section 5.1 Non-Solicitation**

(1) Except as expressly provided in this Article 5, the Company, shall not, and shall cause its Subsidiaries not to, directly or indirectly, through any officer, director, employee, representative (including any financial or other adviser) or agent of the Company or of any of its Subsidiaries (collectively "**Representatives**"), or otherwise, and not permit any such Person to:

(a) solicit, assist, initiate, encourage or otherwise knowingly facilitate (including by way of furnishing or providing copies of, access to, or disclosure of, any confidential information, properties, facilities, books or records of the Company or any Subsidiary or entering into any form of agreement, arrangement or understanding) any inquiry, proposal or offer that constitutes or may reasonably be expected to constitute or lead to, an Acquisition Proposal;

(b) enter into or otherwise engage or participate in any discussions or negotiations with any Person (other than the Parent, the Purchaser and their affiliates) regarding any inquiry, proposal or offer that constitutes or may reasonably be expected to constitute or lead to, an Acquisition Proposal;

(c) withdraw, amend, modify or qualify, or publicly propose or state an intention to withdraw, amend, modify or qualify, the Board Recommendation;

(d) accept, approve, endorse or recommend, or publicly propose to accept, approve, endorse or recommend, or take no position or remain neutral with respect to, any Acquisition Proposal (it being understood that publicly taking no position or a neutral position with respect to a publicly announced, or otherwise publicly disclosed, Acquisition Proposal for a period of no more than five Business Days following such public announcement or public disclosure will not be considered to be in violation of this Section 5.1 (or in the event that the Company Meeting is scheduled to occur within such five Business Day period, prior to the third Business Day prior to the date of the Company Meeting)); or

(e) accept or enter into (other than a confidentiality agreement permitted by and in accordance with Section 5.3) or publicly propose to accept or enter into any agreement, understanding or arrangement in respect of an Acquisition Proposal.

(2) The Company shall, and shall cause its Subsidiaries and its Representatives to, immediately cease and terminate, and cause to be terminated, any solicitation, encouragement, discussion, negotiation, or other activities commenced prior to the date of this Agreement with any Person (other than the Parent, the Purchaser and their affiliates) with respect to any inquiry, proposal or offer that constitutes, or may reasonably be expected to constitute or lead to, an Acquisition Proposal, and in connection therewith, the Company will:

(a) discontinue access to and disclosure of all information regarding the Company or any of its Subsidiaries in respect of any inquiry, proposal or offer that constitutes, or may reasonably be expected to constitute or lead to, an Acquisition Proposal, including any data room and any confidential information, properties, facilities, books and records of the Company or any of its Subsidiaries; and

(b) to the extent that such information has not previously been returned, promptly request, and exercise all rights it has to require, (i) the return or destruction of all copies of any confidential information regarding the Company or its Subsidiaries and (ii) the destruction of all material including or incorporating or otherwise reflecting such confidential information regarding the Company of any Subsidiary, in each case, provided to any Person other than the Parent and the Purchaser since January 1, 2014 in respect of any inquiry, proposal or offer that constitutes, or may reasonably be expected to constitute or lead to, an Acquisition Proposal, using its commercially reasonable efforts to ensure that such requests are fully complied with in accordance with the terms of such rights or entitlements.

(3) The Company represents and warrants that the Company has not waived any confidentiality, standstill or similar agreement or restriction in effect as of the date of this Agreement to which the Company or any Subsidiary is a Party, and further covenants and agrees (i) that the Company shall take all necessary action to enforce each confidentiality, standstill, non-disclosure, non-solicitation, use, business purpose or similar agreement or covenant to which the Company or any Subsidiary is a party, and (ii) not release, and cause its Subsidiaries not to release, any Person from, or waive, amend, suspend or otherwise modify such Person's obligations respecting the Company, or any of its Subsidiaries, under any confidentiality, standstill, non-disclosure, non-solicitation, use, business purpose or similar agreement or covenant to which the Company or any Subsidiary is a party, without the prior written consent of the Purchaser (which may be withheld or delayed in the Purchaser's sole and absolute discretion) (it being acknowledged by the Purchaser that the automatic termination or release of any standstill restrictions of any such agreements as a result of entering into and announcing this Agreement shall not be a violation of this Section 5.1(3)), nor will the Company waive the application of the Rights Plan in favour of any third party.

**Section 5.2 Notification of Acquisition Proposals**

(1) If the Company or any of its Subsidiaries or any of their respective Representatives, receives or otherwise becomes aware of any inquiry, proposal or offer that constitutes or may reasonably be expected to constitute or lead to an Acquisition Proposal, or any request for copies of, access to, or disclosure of, confidential information relating to the Company or any Subsidiary in connection with an Acquisition Proposal, including but not limited to information, access, or disclosure relating to the properties, facilities, books or records of the Company or any Subsidiary, the Company shall promptly notify the Purchaser, at first orally, and then as soon as practicable and in any event within 24 hours in writing, of such Acquisition Proposal, inquiry, proposal, offer or request, including a description of its material terms and conditions, the identity of all Persons making the Acquisition Proposal, inquiry, proposal, offer or request, and shall provide the Purchaser with copies of all written documents, material or substantive correspondence or other material received in respect of, from or on behalf of any such Persons. The Company shall keep the Purchaser fully informed on a current basis of the status of material developments and (to the extent permitted by Section 5.3) negotiations with respect to such Acquisition Proposal, inquiry, proposal, offer or request, including any changes, modifications or other amendments to any such Acquisition Proposal, inquiry, proposal, offer or request and shall provide to the Purchaser copies of all material or substantive correspondence if in writing or electronic form, and if not in writing or electronic form, a description of the material terms of such correspondence communicated to the Company by or on behalf of any Person making any such Acquisition Proposal, inquiry, proposal, offer or request.

**Section 5.3 Responding to an Acquisition Proposal**

(1) Notwithstanding Section 5.1, if at any time prior to obtaining the approval by the Common Shareholders of the Arrangement Resolution, the Company receives a written Acquisition Proposal, the Company may (i) contact the Person making such Acquisition Proposal and its Representatives solely for the purpose of clarifying the terms and conditions of such Acquisition Proposal, and (ii) engage in or participate in discussions or negotiations with such Person regarding such Acquisition Proposal, and may provide copies of, access to or disclosure of information, properties, facilities, books or records of the Company or its Subsidiaries, if and only if, in the case of this clause (ii):

(a) the Board first determines in good faith, after consultation with its financial advisors and its outside legal counsel, that such Acquisition Proposal constitutes or would reasonably be expected to constitute or lead to a Superior Proposal;

(b) such Person was not restricted from making such Acquisition Proposal pursuant to an existing confidentiality, standstill, non-disclosure, use, business purpose or similar restriction with the Company or any of its Subsidiaries;

(c) the Company has been, and continues to be, in compliance with its obligations under this Article 5;

(d) prior to providing any such copies, access, or disclosure, the Company enters into a confidentiality and standstill agreement with such Person that contains a standstill provision that is no less onerous or more beneficial to such Person than that in the Confidentiality Agreement and is otherwise on terms that are no less favourable to the Company than those found in the Confidentiality Agreement, and any such copies, access or disclosure provided to such Person shall have already been (or simultaneously be) provided to the Purchaser (by posting such information to the Data Room or otherwise); and

(e) prior to providing any such copies, access or disclosure, the Company provides the Purchaser with a true, complete and final executed copy of the confidentiality and standstill agreement referred to in Section 5.3(1)(d).

**Section 5.4 Right to Match**

(1) If the Company receives an Acquisition Proposal that constitutes a Superior Proposal prior to the approval of the Arrangement Resolution by the Common Shareholders the Board may, subject to compliance with Article 7 and Section 8.2, enter into a definitive agreement with respect to such Superior Proposal, if and only if:

(a) the Person making the Superior Proposal was not restricted from making such Superior Proposal pursuant to an existing confidentiality, standstill, non-disclosure, use, business purpose or similar restriction with the Company or any of its Subsidiaries;

(b) the Company has been, and continues to be, in compliance with its obligations under this Article 5;

(c) the Company has delivered to the Purchaser a written notice of the determination of the Board that such Acquisition Proposal constitutes a Superior Proposal and of the intention of the Board to enter into such definitive agreement with respect to such Superior Proposal, together with a written notice from the Board regarding the value and financial terms that the Board, in consultation with its financial advisors, has determined should be ascribed to any non-cash consideration offered under such Superior Proposal (the "**Superior Proposal Notice**");

(d) the Company has provided the Purchaser a copy of the proposed definitive agreement for the Superior Proposal and all supporting materials, including any financing documents supplied to the Company in connection therewith;

(e) at least five Business Days (the "**Matching Period**") have elapsed from the date that is the later of the date on which the Purchaser received the Superior Proposal Notice and the date on which the Purchaser received all of the materials set forth in Section 5.4(1)(d);

(f) during any Matching Period, the Purchaser has had the opportunity (but not the obligation), in accordance with Section 5.4(2), to offer to amend this Agreement and the Arrangement in order for such Acquisition Proposal to cease to be a Superior Proposal;

(g) after the Matching Period, the Board (i) has determined in good faith, after consultation with its outside legal counsel and financial advisors, that such Acquisition Proposal continues to constitute a Superior Proposal (if applicable, compared to the terms of the Arrangement as proposed to be amended by the Purchaser under Section 5.4(2)) and (ii) has determined in good faith, after consultation with its outside legal counsel, that the failure by the Board to recommend that the Company enter into a definitive agreement with respect to such Superior Proposal would be inconsistent with its fiduciary duties; and

(h) prior to or concurrently with entering into such definitive agreement the Company terminates this Agreement pursuant to Section 7.2(1)(c)(ii) and pays the Termination Fee pursuant to Section 8.2.

(2) During the Matching Period, or such longer period as the Company may approve (in its sole discretion) in writing for such purpose: (a) the Board shall review any offer made by the Purchaser under Section 5.4(1)(e) to amend the terms of this Agreement and the Arrangement in good faith in order to determine whether such proposal would, upon acceptance, result in the Acquisition

Proposal previously constituting a Superior Proposal ceasing to be a Superior Proposal; and (b) the Company shall negotiate in good faith with the Purchaser to make such amendments to the terms of this Agreement and the Arrangement as would enable the Purchaser to proceed with the transactions contemplated by this Agreement on such amended terms. If the Board determines that such Acquisition Proposal would cease to be a Superior Proposal, the Company shall promptly so advise the Purchaser and the Company and the Purchaser shall amend this Agreement to reflect such offer made by the Purchaser, and shall take and cause to be taken all such actions as are necessary to give effect to the foregoing.

(3) Each successive amendment or modification to any Acquisition Proposal that results in an increase in, or modification of, the consideration (or value of such consideration) to be received by the Company Shareholders or other material terms or conditions thereof shall constitute a new Acquisition Proposal for the purposes of this Section 5.4, and the Purchaser shall be afforded a new five Business Day Matching Period from the later of the date on which the Purchaser received the Superior Proposal Notice and the date on which the Purchaser received all of the materials set forth in Section 5.4(1)(d) with respect to the new Superior Proposal from the Company.

(4) The Board shall promptly reaffirm the Board Recommendation by press release after any Acquisition Proposal which the Board has determined not to be a Superior Proposal is publicly announced or publicly disclosed or the Board determines that a proposed amendment to the terms of this Agreement as contemplated under Section 5.4(2) would result in an Acquisition Proposal no longer being a Superior Proposal. The Company shall provide the Purchaser and its outside legal counsel with a reasonable opportunity to review the form and content of any such press release and shall make all reasonable amendments to such press release as requested by the Purchaser and its counsel.

(5) If the Company provides a Superior Proposal Notice to the Purchaser on a date that is less than 10 Business Days before the Company Meeting, the Company shall either proceed with or postpone the Company Meeting to a date that is not more than 15 Business Days after the scheduled date of the Company Meeting, as directed by the Purchaser.

(6) Nothing contained in this Agreement shall prevent the Board from complying with Section 2.17 of Multilateral Instrument 62-104 – *Takeover Bids and Issuer Bids* and similar provisions under Securities Laws relating to the provision of a directors' circular in respect of an Acquisition Proposal.

## ARTICLE 6
## CONDITIONS

**Section 6.1 Mutual Conditions Precedent**

The Parties are not required to complete the Arrangement unless each of the following conditions is satisfied on or prior to the Effective Time, which conditions may only be waived, in whole or in part, by the mutual consent of each of the Parties:

(1) **Arrangement Resolution.** The Arrangement Resolution has been approved and adopted by the Common Shareholders at the Company Meeting in accordance with the Interim Order.

(2) **Interim and Final Order.** The Interim Order and the Final Order have each been obtained on terms consistent with this Agreement, and have not been set aside or modified in a manner unacceptable to either the Company or the Purchaser, each acting reasonably, on appeal or otherwise.

(3) **Illegality.** No Governmental Authority of competent jurisdiction shall have enacted, issued, promulgated, enforced or entered any Law or Order (whether temporary, preliminary or permanent), in any case which is in effect and which prevents, prohibits or makes the consummation of the Arrangement illegal or otherwise prohibits or enjoins the Company, the Parent or the Purchaser from consummating the Arrangement or any of the other transactions contemplated in this Agreement.

**Section 6.2 Additional Conditions Precedent to the Obligations of the Purchaser**

The Purchaser is not required to complete the Arrangement unless each of the following conditions is satisfied on or before the Effective Time, which conditions are for the exclusive benefit of the Purchaser and may only be waived, in whole or in part, by the Purchaser in its sole discretion:

(1) **Representations and Warranties.** (i) The representations and warranties of the Company set forth in this Agreement were true and correct as of the date of this Agreement and are true and correct as of the Effective Time (except for representations and warranties made as of a specified date, the accuracy of which shall be determined as of such specified date), except to the extent that the failure or failures of such representations and warranties to be so true and correct, individually or in the aggregate, would not have a Material Adverse Effect (and, for this purpose, any reference to "material", "Material Adverse Effect" or other concepts of materiality in such representations and warranties shall be ignored), (ii) the representations and warranties of the Company set forth in Paragraphs (1), (2), (3), (5)(a), (8), (9) and (24) of Schedule D were true and correct as of the date of this Agreement and are true and correct as of the Effective Time in all material respects (and, for this purpose, any reference to "material", "Material Adverse Effect" or other concepts of materiality in such representations and warranties shall be ignored) and (iii) the representations and warranties of the Company set forth in Paragraph (6) of Schedule D were true and correct as of the date of this Agreement and are true and correct as of the Effective Time in all but *de minimis* respects, in each case except for representations and warranties made as of a specified date, the accuracy of which shall be determined as of such specified date, and the Company has delivered a certificate confirming same to the Purchaser, executed by two

senior officers of the Company (in each case without personal liability) addressed to the Purchaser and dated the Effective Date.

(2) **Performance of Covenants**. The Company has fulfilled or complied in all material respects with each of the covenants of the Company contained in this Agreement to be fulfilled or complied with by it on or prior to the Effective Time, and the Company has delivered a certificate confirming same to the Purchaser, executed by two senior officers of the Company (in each case without personal liability) addressed to the Purchaser and dated the Effective Date.

(3) **Regulatory Approvals.** Each of the Regulatory Approvals has been made, given or obtained on terms acceptable to the Purchaser taking into account the covenants of the Parent and the Purchaser in this respect at Section 4.4, and each such Regulatory Approval is in force and has not been modified.

(4) **No Legal Action.** There is no action or proceeding (whether, for greater certainty, by a Governmental Entity or any other Person) pending or threatened in any jurisdiction to:

(a) cease trade, enjoin, prohibit, or impose any limitations, damages or conditions on, the Parent's or the Purchaser's ability to acquire, hold, or exercise full rights of ownership over, any Company Shares, including the right to vote the Common Shares;

(b) impose terms or conditions on completion of the Arrangement or on the ownership or operation by the Parent or the Purchaser of the business or assets of the Parent, the Purchaser, their affiliates and related entities, the Company or any of the Company's Subsidiaries and related entities, or compel the Parent or the Purchaser to dispose of or hold separate any of the business or assets of the Parent, the Purchaser, their affiliates and related entities, the Company or any of the Company's Subsidiaries and related entities as a result of the Arrangement, in each case, beyond what the Parent and the Purchaser are required to accept or agree to pursuant to Section 4.4; or

(c) prevent or materially delay the consummation of the Arrangement, or if the Arrangement were to be consummated, have a Material Adverse Effect.

(5) **Dissent Rights.** Dissent Rights have not been exercised with respect to more than 10% of the issued and outstanding Common Shares.

(6) **Material Adverse Effect**. There shall not have been or occurred a Material Adverse Effect.

**Section 6.3 Additional Conditions Precedent to the Obligations of the Company**

The Company is not required to complete the Arrangement unless each of the following conditions is satisfied on or before the Effective Time, which conditions are for the exclusive benefit of the Company and may only be waived, in whole or in part, by the Company in its sole discretion:

(1) **Representations and Warranties.** The representations and warranties of the Parent and the Purchaser which are qualified by references to materiality and the representations and warranties set forth in Paragraphs (1), (2), (3), (5)(a) and (9) of Schedule E were true and correct as of the date of this Agreement and are true and correct as of the Effective Time, in all respects, and all other representations and warranties of the Parent and the Purchaser were true and correct as of the date of this Agreement and are true and correct as of the Effective Time, in all material respects, in each case except for representations and warranties made as of a specified date, the accuracy of which shall be determined as of such specified date, except where the failure of such representations and warranties to be true and correct, individually or in the aggregate, would not materially impede completion of the Arrangement, and the Parent and the Purchaser have delivered a certificate confirming same to the Company, executed by two senior officers of the Parent and the Purchaser (in each case without personal liability) addressed to the Company and dated the Effective Date.

(2) **Performance of Covenants.** The Parent and the Purchaser have fulfilled or complied in all material respects with each of the covenants of the Parent and the Purchaser contained in this Agreement to be fulfilled or complied with by them on or prior to the Effective Time, and the Parent and the Purchaser have delivered a certificate confirming same to the Company, executed by two senior officers of the Parent and the Purchaser (in each case without personal liability) addressed to the Company and dated the Effective Date.

(3) **Deposit of Consideration.** Subject to obtaining the Final Order and the satisfaction or waiver of the other conditions precedent contained herein in its favour (other than conditions which, by their nature, are only capable of being satisfied as of the Effective Time), the Purchaser has deposited or caused to be deposited with the Depositary in escrow in accordance with Section 2.9 the funds required to effect payment in full of the aggregate Consideration to be paid pursuant to the Arrangement and the Depositary has confirmed to the Company receipt of such funds.

**Section 6.4 Satisfaction of Conditions**

The conditions precedent set out in Section 6.1, Section 6.2 and Section 6.3 will be conclusively deemed to have been satisfied, waived or released when the Certificate of Arrangement is issued by the

Enterprise Registrar. For greater certainty, and notwithstanding the terms of any escrow arrangement entered into between the Purchaser and the Depositary, all funds held in escrow by the Depositary pursuant to Section 2.9 hereof shall be deemed to be released from escrow when the Certificate of Arrangement is issued.

## ARTICLE 7
## TERM AND TERMINATION

**Section 7.1 Term**

This Agreement shall be effective from the date hereof until the earlier of the Effective Time and the termination of this Agreement in accordance with its terms.

**Section 7.2 Termination**

(1) This Agreement may be terminated prior to the Effective Time by:

(a) the mutual written agreement of the Parties; or

(b) either the Company, on the one hand, or the Parent or the Purchaser, on the other hand, if:

(i) the Arrangement Resolution is not approved by the Common Shareholders at the Company Meeting in accordance with the Interim Order provided that a Party may not terminate this Agreement pursuant to this Section 7.2(1)(b)(i) if the failure to obtain the approval of the Common Shareholders has been caused by, or is a result of, a breach by such Party of any of its representations or warranties or the failure of such Party to perform any of its covenants or agreements under this Agreement;

(ii) after the date of this Agreement, any Law is enacted, made, enforced or amended, as applicable, that makes the consummation of the Arrangement illegal or otherwise permanently prohibits or enjoins the Company, the Parent or the Purchaser from consummating the Arrangement, and such Law has, if applicable, become final and non-appealable, provided the Party seeking to terminate this Agreement pursuant to this Section 7.2(1)(b)(ii) has used its commercially reasonable efforts to, as applicable, appeal or overturn such Law or otherwise have it lifted or rendered non-applicable in respect of the Arrangement; or

(iii) the Effective Time does not occur on or prior to the Outside Date, provided that a Party may not terminate this Agreement pursuant to this Section 7.2(1)(b)(iii) if the failure of the Effective Time to so occur has been caused by, or is a result of, a breach by such Party (including, in the case of the Purchaser, the Parent)

of any of its representations or warranties or the failure of such Party (including, in the case of the Purchaser, the Parent) to perform any of its covenants or agreements under this Agreement.

(c) the Company if:

(i) a breach of any representation or warranty or failure to perform any covenant or agreement on the part of the Parent or the Purchaser under this Agreement occurs that would cause any condition in Section 6.3(1) or Section 6.3(2) not to be satisfied, and such breach or failure is incapable of being cured on or prior to the Outside Date or is not cured in accordance with the terms of Section 4.8(3); provided that any wilful breach shall be deemed to be incurable and the Company is not then in breach of this Agreement so as to cause any condition in Section 6.2(1) or Section 6.2(2) not to be satisfied; or

(ii) prior to the approval by the Common Shareholders of the Arrangement Resolution, the Board authorizes the Company to enter into a written agreement (other than a confidentiality agreement permitted by and in accordance with Section 5.3) with respect to a Superior Proposal in accordance with Section 5.4, provided the Company is then in compliance with Article 5 and that prior to or concurrent with such termination the Company pays the Termination Fee in accordance with Section 8.2.

(d) the Parent or the Purchaser if:

(i) a breach of any representation or warranty or failure to perform any covenant or agreement on the part of the Company under this Agreement occurs that would cause any condition in Section 6.2(1) or Section 6.2(2) not to be satisfied, and such breach or failure is incapable of being cured on or prior to the Outside Date or is not cured in accordance with the terms of Section 4.8(3); provided that any wilful breach shall be deemed to be incurable and the Parent and the Purchaser are not then in breach of this Agreement so as to cause any condition in Section 6.3(1) or Section 6.3(2) not to be satisfied;

(ii) (A) the Board or any committee of the Board fails to unanimously recommend or withdraws, amends, modifies or qualifies, or publicly proposes or states an intention to withdraw, amend, modify or qualify, the Board Recommendation, (B) the Board or any committee of the Board accepts, approves, endorses or recommends, or publicly proposes to accept, approve, endorse or recommend an Acquisition Proposal or takes no position or remains neutral with respect to a publicly announced, or otherwise publicly disclosed, Acquisition Proposal for more than five Business Days (or beyond the third Business Day prior to the date of the Company Meeting, if sooner)), (C) the Board or any committee of the Board accepts or enters into (other than a confidentiality agreement permitted by and in accordance with Section 5.3) or publicly proposes to accept or enter into any agreement, understanding or arrangement in respect of an Acquisition Proposal, (D) the Board or any committee of the Board fails to

publicly recommend or reaffirm the Board Recommendation within five Business Days after having been requested in writing by the Purchaser to do so (or in the event that the Company Meeting is scheduled to occur within such five Business Day period, prior to the third Business Day prior to the date of the Company Meeting), or (E) the Company breaches Article 5 in any material respect;

(iii) the condition set forth in Section 6.2(5) is not capable of being satisfied by the Outside Date; or

(iv) there has occurred a Material Adverse Effect which is incapable of being cured on or prior to the Outside Date.

(2) The Party desiring to terminate this Agreement pursuant to this Section 7.2 (other than pursuant to Section 7.2(1)(a)) shall give notice of such termination to the other Party, specifying in reasonable detail the basis for such Party's exercise of its termination right.

**Section 7.3 Effect of Termination/Survival**

(1) If this Agreement is terminated pursuant to Section 7.1 or Section 7.2, this Agreement shall become void and of no further force or effect without liability of any Party (or any shareholder, director, officer, employee, agent, consultant or representative of such Party) to any other Party to this Agreement, except that: (a) in the event of termination under Section 7.1 as a result of the Effective Time occurring, Section 2.7 and Section 4.9 shall survive for a period of six (6) years following such termination; (b) in the event of termination under Section 7.1 as a result of the Effective Time occurring, Section 4.6(4), Section 4.6(5) shall survive any termination hereof for the maximum limitation period permitted under the Law and, (c) in the event of termination under Section 7.2, Section 4.6(4), Section 4.6(5), this Section 7.3 and Section 8.2 through to and including Section 8.16 shall survive, and provided further that, subject to Section 8.2(4), no Party shall be relieved of any liability for any wilful breach by it of this Agreement.

## ARTICLE 8
## GENERAL PROVISIONS

**Section 8.1 Amendments**

This Agreement and the Plan of Arrangement may, at any time and from time to time before or after the holding of the Company Meeting but not later than the Effective Time, be amended by mutual

written agreement of the Parties, without further notice to or authorization on the part of the Company Shareholders, and any such amendment may**,** subject to the Interim Order and Final Order and Laws, without limitation:

(a) change the time for performance of any of the obligations or acts of the Parties;

(b) modify any representation or warranty contained in this Agreement or in any document delivered pursuant to this Agreement;

(c) modify any of the covenants contained in this Agreement and waive or modify performance of any of the obligations of the Parties; and/or

(d) modify any mutual conditions contained in this Agreement.

Notwithstanding anything to the contrary contained herein, if the Preferred Shareholder Resolution is not approved by the Preferred Shareholders in accordance with the Interim Order prior to the Final Order being obtained, the Plan of Arrangement shall be amended to exclude the Preferred Shares from the Plan of Arrangement along with matters ancillary thereto (including, for greater certainty, the Dissent Rights in favour of the Preferred Shareholders).

**Section 8.2 Termination Fees**

(1) Despite any other provision in this Agreement relating to the payment of fees and expenses, including the payment of brokerage fees, if a Termination Fee Event occurs, the Company shall pay the Purchaser the Termination Fee in accordance with Section 8.2(3).

(2) For the purposes of this Agreement, "**Termination Fee**" means $100,000,000, and "**Termination Fee Event**" means the termination of this Agreement:

(a) by the Parent or the Purchaser, pursuant to Section 7.2(1)(d)(ii);

(b) by the Company, pursuant to Section 7.2(1)(c)(ii);

(c) pursuant to any Subsection of Section 7.2(1) if at such time the Parent or the Purchaser is entitled to terminate this Agreement pursuant to Section 7.2(1)(d)(ii); or

(d) by the Company or the Parent or the Purchaser pursuant to Section 7.2(1)(b)(i) or Section 7.2(1)(b)(iii), or by the Parent or the Purchaser pursuant to Section 7.2(1)(d)(i) (due to a willful breach or fraud), if;

(i) prior to such termination, an Acquisition Proposal is made or publicly announced or otherwise publicly disclosed by any Person (other than the Purchaser, the Parent or any of their respective affiliates) or any Person (other than the Parent, the Purchaser or any of their respective affiliates) shall have publicly announced an intention to make an Acquisition Proposal; and

(ii) within 365 days following the date of such termination (A) an Acquisition Proposal (whether or not such Acquisition Proposal is the same Acquisition Proposal referred to in clause (i) above) is consummated or effected, or (B) the Company or one or more of its Subsidiaries, directly or indirectly, in one or more transactions, enters into a contract, other than a confidentiality agreement permitted by and in accordance with Section 5.3, in respect of an Acquisition Proposal (whether or not such Acquisition Proposal is the same Acquisition Proposal referred to in clause (i) above) and such Acquisition Proposal is later consummated or effected (whether or not such Acquisition Proposal is later consummated or effected within 365 days after such termination).

For purposes of the foregoing, the term "Acquisition Proposal" shall have the meaning assigned to such term in Section 1.1, except that references to "20% or more" shall be deemed to be references to "50% or more".

(3) If a Termination Fee Event occurs due to a termination of this Agreement by the Company pursuant to Section 7.2(1)(c)(ii), the Termination Fee shall be paid prior to or simultaneously with the occurrence of such Termination Fee Event. If a Termination Fee Event occurs (i) due to a termination of this Agreement by the Parent or the Purchaser pursuant to Section 7.2(1)(d)(ii) or (ii) in the circumstances set out in Section 8.2(2)(c), the Termination Fee shall be paid within two Business Days following such Termination Fee Event. If a Termination Fee Event occurs in the circumstances set out in Section 8.2(2)(d), the Termination Fee shall be paid upon the consummation/closing of the Acquisition Proposal referred to therein. Any Termination Fee shall be paid by the Company to the Purchaser (or as the Purchaser may direct by notice in writing), by wire transfer in immediately available funds to an account designated by the Purchaser.

(4) The Company acknowledges that the agreements contained in Section 8.2 are an integral part of the transactions contemplated by this Agreement, and that without these agreements the Parent and the Purchaser would not enter into this Agreement, and that the amounts set out in this Section 8.2 represent liquidated damages which are a genuine pre-estimate of the damages, including opportunity costs, reputational damage, and out-of-pocket expenditures, which the Parent and the Purchaser will suffer or incur as a result of the event giving rise to such damages and resultant termination of this Agreement, and are not penalties. The Company irrevocably waives any right it may have to raise as a defence that any such liquidated damages are excessive or punitive. In the event the Termination Fee is paid in full to the Purchaser (or as it directs) in the manner provided in this Section 8.2, the Parent and the Purchaser agree that the payment of the Termination Fee is the sole and exclusive remedy of the Parent and the Purchaser in connection with this Agreement (and the termination hereof), the transactions contemplated hereby or any matter forming the basis for such termination, and following such receipt neither the Parent nor the Purchaser shall be entitled to bring or maintain any claim, action or proceeding against the Company or any of its affiliates arising out of or in connection with this Agreement (or the termination thereof) or the transactions contemplated herein and neither the Company nor any of its affiliates shall have any further liability with respect to this Agreement or the transactions contemplated hereby to the Parent or the Purchaser or any of their respective affiliates. Notwithstanding anything in this Agreement to the contrary, while the Parent and the Purchaser

may pursue both a grant of specific performance in accordance with Section 8.6 and the payment of the Termination Fee under Section 8.2, under no circumstances shall the Parent or the Purchaser be permitted or entitled to receive both a grant of specific performance of the Company's obligation to consummate the transactions contemplated hereby and any monetary damages, including all or any portion of the Termination Fee.

**Section 8.3 Expenses and Expense Reimbursement**

(1) Except as expressly otherwise provided in this Agreement, all out-of-pocket third party transaction expenses incurred in connection with this Agreement and the Plan of Arrangement and the transactions contemplated hereunder and thereunder, including all costs, expenses and fees of the Company incurred prior to or after the Effective Time in connection with, or incidental to, the Plan of Arrangement, shall be paid by the Party incurring such expenses, whether or not the Arrangement is consummated. Except as provided in Section 4.4(7), the Purchaser and the Company shall each pay one-half of the filing fees required to obtain Regulatory Approvals, including applicable Taxes.

(2) In addition to the rights of the Purchaser under Section 8.2(1), if this Agreement is terminated by the Parent or the Purchaser pursuant to Section 7.2(1)(d)(i), then the Company shall, within two Business Days of such termination, pay or cause to be paid to the Purchaser (or as the Purchaser may direct by notice in writing), by wire transfer in immediately available funds to an account designated by the Purchaser, an expense reimbursement fee of $15,000,000. In no event shall the Company be required to pay under Section 8.2(1), on the one hand, and this Section 8.3(2), on the other hand, in the aggregate, an amount in excess of the Termination Fee.

(3) The Company confirms that other than the fees disclosed in Section 8.3(3) of the Company Disclosure Letter, no broker, finder or investment banker is or will be entitled to any brokerage, finder's or other fee or commission in connection with the transactions contemplated by this Agreement.

**Section 8.4 Notices**

Any notice, or other communication given regarding the matters contemplated by this Agreement must be in writing, sent by personal delivery, courier, facsimile or electronic

mail (provided confirmation of receipt is acknowledged by return electronic mail from the recepient) addressed:

(a) to the Purchaser and the Parent at:

Lowe's Companies, Inc.
1000 Lowe's Boulevard
Mooresville, NC 28117
Attention: Chief Development Officer and President - International
Facsimile: (704) 757-0805
E-mail: Richard.D.Maltsbarger@lowes.com

and

Lowe's Companies Canada, ULC
5160 Yonge Street, Suite 200
Toronto, Ontario, Canada
Facsimile: (416) 730-7371
Attention: President
E-mail: Sylvain.Prud'homme@lowes.com

with a copy to:

Office of the General Counsel
Lowe's Companies, Inc.
1000 Lowe's Boulevard
Mooresville, NC 28117
Facsimile: (704) 757-0675

with a copy to:

Stikeman Elliott LLP
5300 Commerce Court West
199 Bay Street
Toronto, Canada M5L 1B9

Attention: William J. Braithwaite
Facsimile: (416) 947-0866
E-mail: WBraithwaite@stikeman.com

(b) to the Company at:

220 Chemin du Tremblay,
Boucherville,
Québec, Canada J4B 8H7

Attention: Dominique Boies
Facsimile: (514) 599-5126
E-mail: dominique.boies@rona.ca

with a copy to:

Norton Rose Fulbright Canada LLP
1, Place Ville-Marie
Suite 2500
Montréal, Québec H3B 1R1

Attention: Francis R. Legault
Facsimile: (514) 286-5474
E-mail: francis.legault@nortonrosefulbright.com

Any notice or other communication is deemed to be given and received (i) if sent by personal delivery or same day courier, on the date of delivery if it is a Business Day and the delivery was made prior to 4:00 p.m. (local time in place of receipt) and otherwise on the next Business Day, (ii) if sent by overnight courier, on the next Business Day, (iii) if sent by facsimile, on the Business Day following the date of confirmation of transmission by the originating facsimile or (iv) if sent by electronic mail, upon confirmation of receipt by the recipient if it is a Business Day and confirmation was received prior to 5:00 p.m. (local time in place of delivery of receipt), and otherwise on the Business Day following receipt of the confirmation. Sending a copy of a notice or other communication to a Party's legal counsel as contemplated above is for information purposes only and does not constitute delivery of the notice or other communication to that Party. The failure to send a copy of a notice or other communication to legal counsel does not invalidate delivery of that notice or other communication to a Party.

**Section 8.5 Time of the Essence**

Time is of the essence in this Agreement.

**Section 8.6 Injunctive Relief**

The Parties agree that irreparable harm would occur for which money damages would not be an adequate remedy at law in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the Parties shall be entitled to injunctive and other equitable relief to prevent breaches or threatened breaches of this Agreement, and to enforce compliance with the terms of this Agreement without any requirement for the securing or posting of any bond in connection with the obtaining of any such injunctive or other equitable relief, this, subject to Section 8.2(4), being in addition to any other remedy to which the Parties may be entitled at law or in equity.

**Section 8.7 Third Party Beneficiaries**

(1) Except as provided in Section 4.6(4) and Section 4.9 which, without limiting their terms, are intended as stipulations for the irrevocable benefit of, and shall be enforceable by, the third Persons mentioned in such provisions (such third Persons referred to in this Section 8.7 as the "**Indemnified Persons**"), the Company, the Purchaser and the Parent intend that this Agreement will not benefit or create any right or cause of action in favour of any Person, other than the Parties and that no Person, other than the Parties, shall be entitled to rely on the provisions of this Agreement in any action, suit, proceeding, hearing or other forum.

(2) Despite the foregoing, the Parties acknowledge to each of the Indemnified Persons their direct rights against the applicable Party under Section 4.6(4) and Section 4.9, respectively, of this Agreement, which (i) are intended for the irrevocable benefit of, and shall be enforceable by, each Indemnified Person, his or her heirs, executors, administrators and legal representatives, and for such purpose, the Company or the Purchaser, as applicable, confirms that it is acting as trustee on their behalf, and agrees to enforce such provisions on their behalf, and (ii) shall not be deemed exclusive of any other rights to which an Indemnified Party has under Law, Contract or otherwise, and shall be binding on the Purchaser, the Parent and any of their successors. The Parties reserve their right to vary or rescind the rights at any time and in any way whatsoever, if any, granted by or under this Agreement to any Person who is not a Party, without notice to or consent of that Person, including any Indemnified Person.

**Section 8.8 Waiver**

No waiver of any of the provisions of this Agreement will constitute a waiver of any other provision (whether or not similar). No waiver will be binding unless executed in writing by the Party to be bound by the waiver. A Party's failure or delay in exercising any right under this Agreement will not operate as a waiver of that right. A single or partial exercise of any right will not preclude a Party from any other or further exercise of that right or the exercise of any other right.

**Section 8.9 Entire Agreement**

This Agreement, together with the Confidentiality Agreement, constitutes the entire agreement between the Parties with respect to the transactions contemplated by this Agreement and supersedes all prior agreements, understandings, negotiations and discussions, whether oral or written, of the Parties; provided that to the extent any provisions of the Confidentiality Agreement conflict with the terms of this Agreement, the terms of this Agreement shall prevail. There are no representations, warranties, covenants, conditions or other agreements, express or implied, collateral, statutory or otherwise, between the Parties in connection with the subject matter of this Agreement, except as specifically set forth in this Agreement. The Parties have not relied and are not relying on any other information, discussion or understanding in entering into and completing the transactions contemplated by this Agreement.

**Section 8.10 Successors and Assigns**

(1) This Agreement becomes effective only when executed by the Company, the Purchaser and the Parent. After that time, it will be binding upon and enure to the benefit of the Company, the Purchaser, the Parent and their respective successors and permitted assigns.

(2) Neither this Agreement nor any of the rights or obligations under this Agreement are assignable or transferable by any Party without the prior written consent of the other Party, provided that the Purchaser may assign all or part of its rights under this Agreement to, and its obligations under this Agreement may be assumed by, any of its affiliates, provided that if such assignment and/or assumption takes place, the Purchaser shall continue to be liable joint and severally with such affiliate, as the case may be, for all of its obligations hereunder.

**Section 8.11 Severability**

If any provision of this Agreement is determined to be illegal, invalid or unenforceable by any court of competent jurisdiction, that provision will be severed from this Agreement and the remaining provisions shall remain in full force and effect. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that the transactions contemplated hereby are fulfilled to the fullest extent possible.

**Section 8.12 Governing Law**

(1) This Agreement will be governed by and interpreted and enforced in accordance with the laws of the Province of Québec and the federal laws of Canada applicable therein.

(2) Each Party irrevocably attorns and submits to the non-exclusive jurisdiction of the Québec courts situated in the City of Montreal and waives objection to the venue of any proceeding in such court or that such court provides an inconvenient forum.

**Section 8.13 Rules of Construction**

The Parties to this Agreement waive the application of any Law or rule of construction providing that ambiguities in any agreement or other document shall be construed against the party drafting such agreement or other document.

**Section 8.14 No Liability**

No director or officer of the Parent or the Purchaser shall have any personal liability whatsoever to the Company under this Agreement or any other document delivered in connection with the transactions contemplated hereby on behalf of the Parent or the Purchaser. No director or officer of the Company or any of its Subsidiaries shall have any personal liability whatsoever to the Parent or the Purchaser under this Agreement or any other document delivered in connection with the transactions contemplated hereby on behalf of the Company or any of its Subsidiaries.

**Section 8.15 Language**

The Parties expressly acknowledge that they have requested that this Agreement and all ancillary and related documents thereto be drafted in the English language only. Les parties aux présentes reconnaissent avoir exigé que la présente entente et tous les documents qui y sont accessoires soient rédigés en anglais seulement.

**Section 8.16 Counterparts**

This Agreement may be executed in any number of counterparts (including counterparts by facsimile) and all such counterparts taken together shall be deemed to constitute one and the same instrument. The Parties shall be entitled to rely upon delivery of an executed facsimile or similar executed electronic copy of this Agreement, and such facsimile or similar executed electronic copy shall be legally effective to create a valid and binding agreement between the Parties.

**[Remainder of page intentionally left blank. Signature page follows.]**

**IN WITNESS WHEREOF** the Parties have executed this Arrangement Agreement.

**RONA INC.**

By: /s/ Robert Sawyer

Name: Robert Sawyer
Title: Authorized Signing Officer

By: /s/ Dominique Boies

Name: Dominique Boies
Title: Authorized Signing Officer

[*Signature Page to Arrangement Agreement*]

**LOWE'S COMPANIES, INC.**

By: /s/ Richard D. Maltsbarger

Name: Richard D. Maltsbarger

Title: Chief Development Officer and President - International

**LOWE'S COMPANIES CANADA, ULC**

By: /s/ Sylvain Prud'homme

Name: Sylvain Prud'homme

Title: President

**Schedule A – Plan of Arrangement**

**PLAN OF ARRANGEMENT UNDER CHAPTER XVI – DIVISION II OF THE *BUSINESS CORPORATIONS ACT* (QUÉBEC)**

## ARTICLE 1
## INTERPRETATION

### Section 1.1 Definitions

Unless indicated otherwise, where used in this Plan of Arrangement, capitalized terms used but not defined shall have the meanings specified in the Arrangement Agreement and the following terms shall have the following meanings (and grammatical variations of such terms shall have corresponding meanings):

"**Arrangement**" means the arrangement under Chapter XVI – Division II of the QBCA on the terms and subject to the conditions set out in this Plan of Arrangement, subject to any amendments or variations made in accordance with the terms of the Arrangement Agreement or Section 5.1 of this Plan of Arrangement or made at the direction of the Court in the Final Order with the prior written consent of the Company and the Purchaser, each acting reasonably.

"**Arrangement Agreement**" means the arrangement agreement made as of February 2, 2016 among the Parent, the Purchaser and the Company (including the Schedules thereto) as it may be amended, modified or supplemented from time to time in accordance with its terms.

"**Arrangement Resolution**" means the special resolution approving this Plan of Arrangement to be considered at the Company Meeting by Common Shareholders.

"**Articles of Arrangement**" means the articles of arrangement of the Company in respect of the Arrangement, required by the QBCA to be sent to the Enterprise Registrar after the Final Order is made, which shall include this Plan of Arrangement and otherwise be in a form and content satisfactory to the Company and the Purchaser, each acting reasonably.

"**Business Day**" means any day of the year, other than a Saturday, Sunday, a public holiday or any day when banks in Montreal, Québec or Mooresville, North Carolina are not generally open for business.

"**Certificate of Arrangement**" means the certificate of arrangement issued by the Enterprise Registrar in accordance with the QBCA in respect of the Articles of Arrangement.

"**Common Shareholders**" means the registered and/or beneficial holders of Common Shares, as the context requires.

"**Common Shares**" means the common shares in the capital of the Company.

"**Company**" means RONA inc., a corporation incorporated under the laws of Québec.

"**Company Circular**" means the notice of the Company Meeting and accompanying management information circular, including all schedules, appendices and exhibits to, and information incorporated by reference in, such management information circular, to be sent to Company Shareholders in connection with the Company Meeting, as amended, supplemented or otherwise modified from time to time in accordance with the terms of the Arrangement Agreement.

"**Company Meeting**" means the special meeting of Common Shareholders and Preferred Shareholders, including any adjournment or postponement of such special meeting in accordance with the terms of the Arrangement Agreement, to be called and held in accordance with the Interim Order to consider the Arrangement Resolution and the Preferred Shareholder Resolution.

"**Company Securityholders**" means, collectively, the Common Shareholders, the Preferred Shareholders, the holders of Options, the holders of DSUs, the holders of RSUs and the holders of PSUs.

"**Consideration**" means $24.00 in cash per Common Share, without interest, and $20.00 in cash per Preferred Share (together with an amount equal to all accrued and unpaid dividends thereon up to, but excluding, the Effective Date), without interest, as applicable.

"**Court**" means the Québec Superior Court, or other court as applicable.

"**Depositary**" means Computershare Investor Services Inc.

"**Dissent Rights**" has the meaning specified in Section 3.1.

"**Dissenting Holder**" means a registered Common Shareholder or registered Preferred Shareholder, as applicable, who has validly exercised its Dissent Rights and has not withdrawn or been deemed to have withdrawn such exercise of Dissent Rights, but only in respect of the Common Shares or Preferred Shares, as applicable, in respect of which Dissent Rights are validly exercised by such registered Common Shareholder or registered Preferred Shareholder.

"**DSU Plan**" means the Company's deferred share unit plan for external directors of the board of directors dated February 21, 2006.

"**DSUs**" means the outstanding deferred share units issued under the DSU Plan.

"**Effective Date**" means the date shown on the Certificate of Arrangement giving effect to the Arrangement.

"**Effective Time**" means 12:01 a.m. (Montreal time) on the Effective Date, or such other time as the Parties agree to in writing before the Effective Date.

"**Enterprise Registrar**" means the Enterprise Registrar appointed by the Minister of Revenue of Québec.

"**Final Order**" means the final order of the Court in a form acceptable to the Company and the Purchaser, each acting reasonably, approving the Arrangement, as such order may be amended by the Court (with the consent of both the Company and the Purchaser, each acting reasonably) at any time prior to the Effective Date or, if appealed, then, unless such appeal is withdrawn or denied, as affirmed or as amended (provided that any such amendment is acceptable to both the Company and the Purchaser, each acting reasonably) on appeal.

"**Governmental Entity**" means (i) any international, multinational, national, federal, provincial, state, regional, municipal, local or other government, governmental or public department, central bank, court, tribunal, arbitral body, commission, board, bureau, commissioner, minister, cabinet, governor in council, ministry, agency or instrumentality, domestic or foreign, (ii) any subdivision or authority of any of the above, (iii) any quasi-governmental or private body exercising any regulatory, expropriation or taxing authority under or for the account of any of the foregoing or (iv) any stock exchange.

"**Interim Order**" means the interim order of the Court in a form acceptable to the Company and the Purchaser, each acting reasonably, providing for, among other things, the calling and holding of the Company Meeting, as such order may be amended by the Court with the consent of the Company and the Purchaser, each acting reasonably.

"**Law**" means, with respect to any Person, any and all applicable law (statutory, civil, common or otherwise), constitution, treaty, convention, ordinance, code, rule, regulation, order, injunction, judgment, decree, ruling or other similar requirement, whether domestic or foreign, enacted, adopted, promulgated or applied by a Governmental Entity that is binding upon or applicable to such Person or its business, undertaking, property or securities, and to the extent that they have the force of law, policies, guidelines, notices and protocols of any Governmental Entity, as amended unless expressly specified otherwise.

"**Lien**" means any mortgage, charge, pledge, hypothec, security interest, prior claim, encroachment, option, right of first refusal or first offer, occupancy right, covenant, assignment, lien (statutory or otherwise), defect of title, or restriction or adverse right or claim, or other third party interest or encumbrance of any kind, in each case, whether contingent or absolute.

"**Letter of Transmittal**" means the letter of transmittal sent to holders of Common Shares or Preferred Shares, as applicable, for use in connection with the Arrangement.

"**Options**" means the outstanding options to purchase Common Shares issued pursuant to the Stock Option Plans.

"**Parent**" means Lowe's Companies, Inc., a corporation incorporated under the laws of North Carolina.

"**Parties**" means the Company, the Parent and the Purchaser and "**Party**" means any one of them.

"**Person**" includes any individual, partnership, association, body corporate, organization, trust, estate, trustee, executor, administrator, legal representative, government (including Governmental Entity), syndicate or other entity, whether or not having legal status.

"**Plan of Arrangement**" means this plan of arrangement under Chapter XVI – Division II of the QBCA, and any amendments or variations made in accordance with the Arrangement Agreement or Section 5.1 or made at the direction of the Court in the Final Order with the prior written consent of the Company and the Purchaser, each acting reasonably.

"**Preferred Shareholder Resolution**" means the special resolution approving the Plan of Arrangement to be considered at the Company Meeting by Preferred Shareholders.

"**Preferred Shareholders**" means the registered and/or beneficial holders of Preferred Shares, as the context requires.

"**Preferred Shares**" means the sixth series of preferred shares designated as "Cumulative 5-Year Rate Reset Series 6 Class A Preferred Shares" and the seventh series of preferred shares designated as " Cumulative Floating Rate Series 7 Class A Preferred Shares" in the capital of the Company, as constituted on the date hereof.

"**PSUs**" means the performance share units issued under the Share Unit Plans.

"**Purchaser**" means Lowe's Companies Canada, ULC, an unlimited liability company incorporated under the laws of Nova Scotia.

"**QBCA**" means the *Business Corporations Act* (Québec).

"**Rights Plan**" means the shareholder rights plan agreement between the Company and Computershare Trust Company of Canada, as rights agent, dated as of March 10, 2011 and ratified by the Common Shareholders on May 13, 2014.

"**RSUs**" means the restricted share units issued under the Share Unit Plans.

"**Share Unit Plans**" means the Company's share unit plan adopted on May 8, 2007, as amended on March 11, 2009, and the Company's share unit plan adopted on February 15, 2015.

"**Stock Option Plans**" means the share option plan for designated senior executives of the Company adopted on October 24, 2002, as amended on December 14, 2005, March 8, 2007 and February 19, 2008, and the share option plan for designated employees of the Company adopted on March 12, 2015.

"**Tax Act**" means the *Income Tax Act* (Canada).

**Section 1.2 Certain Rules of Interpretation**

In this Plan of Arrangement, unless otherwise specified:

(1) **Headings, etc.** The division of this Plan of Arrangement into Articles and Sections and the insertion of headings are for convenient reference only and do not affect the construction or interpretation of this Plan of Arrangement.

(2) **Currency.** All references to dollars or to $ are references to Canadian dollars, unless specified otherwise.

(3) **Gender and Number.** Any reference to gender includes all genders. Words importing the singular number only include the plural and vice versa.

(4) **Certain Phrases, etc.** The words (i) "including", "includes" and "include" mean "including (or includes or include) without limitation," (ii) "the aggregate of", "the total of", "the sum of", or a phrase of similar meaning means "the aggregate (or total or sum), without duplication, of," and (iii) unless stated otherwise, "Article", "Section", and "Schedule" followed by a number or letter mean and refer to the specified Article or Section of or Schedule to this Plan of Arrangement.

(5) **Statutes.** Any reference to a statute refers to such statute and all rules, resolutions and regulations made under it, as it or they may have been or may from time to time be amended or re-enacted, unless stated otherwise.

(6) **Computation of Time.** A period of time is to be computed as beginning on the day following the event that began the period and ending at 4:30 p.m. on the last day of the period, if the last day of the period is a Business Day, or at 4:30 p.m. on the next Business Day if the last day of the period is not a Business Day. If the date on which any action is required or permitted to be taken under this Plan of Arrangement by a Person is not a Business Day, such action shall be required or permitted to be taken on the next succeeding day which is a Business Day.

(7) **Time References.** References to time herein or in any Letter of Transmittal are to local time, Montreal, Québec.

## ARTICLE 2
## THE ARRANGEMENT

### Section 2.1 Arrangement Agreement

This Plan of Arrangement is made pursuant to the Arrangement Agreement.

### Section 2.2 Binding Effect

This Plan of Arrangement and the Arrangement, upon the filing of the Articles of Arrangement and the issuance of the Certificate of Arrangement, will become effective, and be binding on the Parent, the Purchaser, the Company, all holders and beneficial owners of Common Shares, Preferred Shares, Options, DSUs, RSUs and PSUs, including Dissenting Holders, the registrar and transfer agent of the Company, the Depositary and all other Persons, at and after, the Effective Time without any further act or formality required on the part of any Person.

**Section 2.3 Arrangement**

(a) At the Effective Time each of the following events shall occur and shall be deemed to occur sequentially as set out below without any further authorization, act or formality, in each case, unless stated otherwise, effective as at five minute intervals starting at the Effective Time:

(b) notwithstanding the terms of the Rights Plan, the Rights Plan shall be terminated and all rights issued pursuant to the Rights Plan shall be cancelled without any payment in respect thereof;

(c) each Option outstanding immediately prior to the Effective Time (whether vested or unvested), notwithstanding the terms of the Stock Option Plans, shall be deemed to be unconditionally vested and exercisable, and such Option shall, without any further action by or on behalf of a holder of Options, be deemed to be assigned and transferred by such holder to the Company in exchange for a cash payment from the Company equal to the amount (if any) by which the Consideration per Common Share exceeds the exercise price of such Option less applicable withholdings, and such Option shall immediately be cancelled and, for greater certainty, where such amount is a negative, neither the Company nor the Purchaser shall be obligated to pay the holder of such Option any amount in respect of such Option;

(d) each DSU, RSU or PSU outstanding immediately prior to the Effective Time (whether vested or unvested), notwithstanding the terms of the DSU Plan or the Share Unit Plans, as applicable, shall, without any further action by or on behalf of a holder of DSUs, RSUs or PSUs, be deemed to be assigned and transferred by such holder to the Company in exchange for a cash payment from the Company equal to the Consideration per Common Share in respect of each DSU, RSU or PSU, except that the Consideration per Common Share in respect of each PSU granted in calendar 2013 shall be multiplied by ●%, in each case, less applicable withholdings, and each such DSU, RSU or PSU shall immediately be cancelled;

(e) (i) each holder of Options, DSUs, RSUs or PSUs shall cease to be a holder of such Options, DSUs, RSUs or PSUs, (ii) such holder's name shall be removed from each applicable register, (iii) the Stock Option Plans, the DSU Plan and the Share Unit Plans and all agreements relating to the Options, DSUs, RSUs and PSUs shall be terminated and shall be of no further force and effect, and (iv) such holder shall thereafter have only the right to receive the consideration to which they are entitled pursuant to Section 2.3(c) and Section 2.3(d) at the time and in the manner specified in Section 2.3(c) and Section 2.3(d);

(f) each of the Common Shares or Preferred Shares held by Dissenting Holders in respect of which Dissent Rights have been validly exercised shall be deemed to have been transferred without any further act or formality to the Purchaser (free and clear of all Liens) in consideration for the right to be paid the fair value of their Common Shares or Preferred Shares, as applicable, in accordance with Article 3, and:

(i) such Dissenting Holders shall cease to be the holders of such Common Shares or Preferred Shares, as applicable, and to have any rights as holders of such Common Shares or Preferred Shares, as applicable, other than the right to be paid fair value for such Common Shares or Preferred Shares, as applicable, as set out in Section 3.1;

(ii) such Dissenting Holders' names shall be removed as the holders of such Common Shares or Preferred Shares, as applicable, from the registers of Common Shares and Preferred Shares, as applicable, maintained by or on behalf of the Company; and

(iii) the Purchaser shall be deemed to be the transferee of such Common Shares and Preferred Shares, as applicable, free and clear of all Liens, and shall be entered in the registers of Common Shares and Preferred Shares, as applicable, maintained by or on behalf of the Company;

(g) each Common Share outstanding immediately prior to the Effective Time, other than Common Shares held by a Dissenting Holder who has validly exercised such holder's Dissent Right, shall, without any further action by or on behalf of a holder of Common Shares, be deemed to be assigned and transferred by the holder thereof to the Purchaser (free and clear of all Liens) in exchange for the applicable Consideration for each Common Share held, and:

(i) the holders of such Common Shares shall cease to be the holders thereof and to have any rights as holders of such Common Shares other than the right to be paid the Consideration per Common Share in accordance with this Plan of Arrangement;

(ii) such holders' names shall be removed from the register of the Common Shares maintained by or on behalf of the Company; and

(iii) the Purchaser shall be deemed to be the transferee of such Common Shares (free and clear of all Liens) and shall be entered in the register of the Common Shares maintained by or on behalf of the Company; and

(h) simultaneously with Section 2.3(g), each Preferred Share outstanding immediately prior to the Effective Time, other than Preferred Shares held by a Dissenting Holder who has validly exercised such holder's Dissent Right, shall, without any further action by or on behalf of a holder of Preferred Shares, be deemed to be assigned and transferred by the holder thereof to the Purchaser (free and clear of all Liens) in exchange for the applicable Consideration for each Preferred Share held, and:

(i) the holders of such Preferred Shares shall cease to be the holders thereof and to have any rights as holders of such Preferred Shares other than the right to be paid the Consideration per Preferred Share in accordance with this Plan of Arrangement;

(ii) such holders' names shall be removed from the register of the Preferred Shares maintained by or on behalf of the Company; and

(iii) the Purchaser shall be deemed to be the transferee of such Preferred Shares (free and clear or all Liens) and shall be entered in the register of the Preferred Shares maintained by or on behalf of the Company.

**Section 2.4 Adjustment to Consideration**

If, on or after the date of the Arrangement Agreement, the Company sets a record date for any dividend or other distribution on the Common Shares or the Preferred Shares (other than Permitted Dividends) that is prior to the Effective Time or the Company pays any dividend or other distribution on the Common Shares or Preferred Shares (other than Permitted Dividends) prior to the Effective Time: (i) to the extent that the amount of such dividends or distributions per Common Share or Preferred Share, as applicable, does not exceed the Consideration per Common Share or Preferred Share, as applicable, the Consideration per Common Share or Preferred Share, as applicable, shall be reduced by the amount of such dividends or distributions, as applicable; and (ii) to the extent that the amount of such dividends or distributions per Common Share or Preferred Share, as applicable, exceeds the Consideration per Common Share or Preferred Share, as applicable, such excess amount shall be placed in escrow for the account of the Purchaser or another Person designated by the Purchaser. For greater certainty, any declared dividend on the Preferred Shares with a record date prior to the Effective Date and a payment date after the Effective Date, shall not be considered an "accrued and unpaid dividend" for purposes of the definition of "Consideration" and shall be paid to the holder of record as of the applicable record date on the applicable payment date in the ordinary course.

## ARTICLE 3
## RIGHTS OF DISSENT

**Section 3.1 Rights of Dissent**

Registered Common Shareholders and registered Preferred Shareholders, respectively, may exercise dissent rights with respect to the Common Shares and Preferred Shares held by such holders ("**Dissent Rights**") in connection with the Arrangement pursuant to and in the manner set forth in Chapter XIV of the QBCA, as modified by the Interim Order and this Section 3.1; provided that, notwithstanding Section 376 of the QBCA, the written notice of intent to exercise the right to demand the repurchase of Common Shares or Preferred Shares, as applicable, contemplated by Section 376 of the QBCA must be received by the Company not later than 5:00 p.m. (Montreal time) two Business Days immediately preceding the date of the Company Meeting, and provided that such notice of intent must otherwise comply with the requirements of the QBCA. Dissenting Holders who duly exercise their Dissent Rights shall be deemed to have transferred the Common Shares and Preferred Shares, as applicable, held by them and in respect of which Dissent Rights have been validly exercised to the Purchaser free and clear of all Liens, as provided in Section 2.3(f) and if they:

(a) ultimately are entitled to be paid fair value for such Common Shares or Preferred Shares, as applicable: (i) shall be deemed not to have participated in the transactions in Article 2 (other than Section 2.3(f)); (ii) will be entitled to be paid the fair value of such Common Shares and Preferred Shares, as applicable, which fair value, notwithstanding anything to the contrary contained in Chapter XIV of the QBCA, shall be determined as of the close of business, in respect of the Common Shares, on the day before the Arrangement Resolution was adopted and, in respect of the Preferred Shares, on the day before the Preferred Shareholder Resolution was adopted; and (iii) will not be entitled to any other payment or consideration, including any payment that would be payable under the Arrangement had such holders not exercised their Dissent Rights in respect of such Common Shares or Preferred Shares; or

(b) ultimately are not entitled, for any reason, to be paid fair value for such Common Shares or Preferred Shares, as applicable, shall be deemed to have participated in the Arrangement on the same basis as a non-dissenting holder of Common Shares or Preferred Shares, as applicable.

**Section 3.2 Recognition of Dissenting Holders**

(a) In no circumstances shall the Parent, the Purchaser, the Company or any other Person be required to recognize a Person exercising Dissent Rights unless such Person is the registered holder of those Common Shares or Preferred Shares, as applicable, in respect of which such rights are sought to be exercised.

(b) For greater certainty, in no case shall the Parent, the Purchaser, the Company or any other Person be required to recognize Dissenting Holders as holders of Common Shares or Preferred Shares in respect of which Dissent Rights have been validly exercised after the completion of the transfer under Section 2.3(f), and the names of such Dissenting Holders shall be removed from the registers of holders of the Common Shares and Preferred Shares, as applicable, in respect of which Dissent Rights have been validly exercised at the same time as the event described in Section 2.3(f) occurs. In addition to any other restrictions under Chapter XIV of the QBCA, none of the following shall be entitled to exercise Dissent Rights: (i) holders of Options, holders of DSUs, holders of RSUs or holders of PSUs; (ii) Common Shareholders who have failed to exercise all the voting rights carried by the Common Shares held by such holders against the Arrangement Resolution; and (iii) Preferred Shareholders who have failed to exercise all the voting rights carried by the Preferred Shares held by such holders against the Preferred Shareholder Resolution.

## ARTICLE 4
## CERTIFICATES AND PAYMENTS

**Section 4.1 Payment of Consideration**

(a) Prior to the filing of the Articles of Arrangement the Purchaser shall deposit, or arrange to be deposited, for the benefit of holders of Common Shares and for the benefit of holders of Preferred Shares, cash with the Depositary in the aggregate amount equal to the payments in respect thereof required by this Plan of Arrangement, with the amount per Common Share and Preferred Share, as applicable, in respect of which Dissent Rights have been exercised being deemed to be the Consideration per Common Share or Preferred Share, as applicable, for this purpose, net of applicable withholdings for the benefit of the holders of Common Shares and Preferred Shares, as applicable. The cash deposited with the Depositary by or on behalf of the Purchaser shall be held in an interest-bearing account, and any interest earned on such funds shall be for the account of the Purchaser.

(b) Upon surrender to the Depositary for cancellation of a certificate which immediately prior to the Effective Time represented outstanding Common Shares and Preferred Shares that were transferred pursuant to Section 2.3(g) and Section 2.3(h), respectively, together with a duly completed and executed Letter of Transmittal and such additional documents and instruments as the Depositary may reasonably require, the Common Shareholders and Preferred Shareholders, as the case may be, represented by such surrendered certificate shall be entitled to receive in exchange therefor, and the Depositary shall deliver to such holder, the cash which such holder has the right to receive under the Arrangement for such Common Shares and Preferred Shares, as applicable, less any amounts withheld pursuant to Section 4.3, and any certificate so surrendered shall forthwith be cancelled.

(c) As soon as practicable after the Effective Date, the Company shall pay the amounts, net of applicable withholdings, to be paid to holders of Options, DSUs, RSUs and PSUs, either (i) pursuant to the normal payroll practices and procedures of the Company, or (ii) in the event that payment pursuant to the normal payroll practices and procedures of the Company is not practicable for any such holder, by cheque (delivered to such holder of Options, DSUs, RSUs or PSUs, as applicable, as reflected on the register maintained by or on behalf of the Company in respect of the Options, DSUs, RSUs and PSUs).

(d) Until surrendered as contemplated by this Section 4.1, each certificate that immediately prior to the Effective Time represented Common Shares or Preferred Shares, as applicable, shall be deemed after the Effective Time to represent only the right to receive upon such surrender a cash payment in lieu of such certificate as contemplated in this Section 4.1, less any amounts withheld pursuant to Section 4.3. Any such certificate formerly representing Common Shares or Preferred Shares, as applicable, not duly surrendered on or before the third anniversary of the Effective Date shall cease to represent a claim by or interest of any former holder of Common Shares or Preferred Shares, as applicable, of any kind or nature against or in the Company, the Parent or the Purchaser. On such date, all cash to which such former holder was entitled shall be

deemed to have been surrendered to the Purchaser or the Company, as applicable, and shall be paid over by the Depositary to the Purchaser or as directed by the Purchaser.

(e) Any payment made by way of cheque by the Depositary (or the Company, if applicable) pursuant to this Plan of Arrangement that has not been deposited or has been returned to the Depositary (or the Company) or that otherwise remains unclaimed, in each case, on or before the third anniversary of the Effective Time, and any right or claim to payment hereunder that remains outstanding on the third anniversary of the Effective Time shall cease to represent a right or claim of any kind or nature and the right of the holder to receive the applicable consideration for the Common Shares, the Preferred Shares, the Options, the DSUs, the RSUs and the PSUs pursuant to this Plan of Arrangement shall terminate and be deemed to be surrendered and forfeited to the Purchaser or the Company, as applicable, for no consideration.

(f) No holder of Common Shares, Preferred Shares, Options, DSUs, RSUs or PSUs shall be entitled to receive any consideration with respect to such Common Shares, Preferred Shares, Options, DSUs, RSUs or PSUs other than any cash payment to which such holder is entitled to receive in accordance with Section 2.3 and this Section 4.1 and, for greater certainty, no such holder will be entitled to receive any interest, dividends, premium or other payment in connection therewith.

**Section 4.2 Lost Certificates**

In the event any certificate which immediately prior to the Effective Time represented one or more outstanding Common Shares or Preferred Shares that were transferred pursuant to Section 2.3 shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the Person claiming such certificate to be lost, stolen or destroyed, the Depositary will issue in exchange for such lost, stolen or destroyed certificate, cash deliverable in accordance with such holder's Letter of Transmittal. When authorizing such payment in exchange for any lost, stolen or destroyed certificate, the Person to whom such cash is to be delivered shall as a condition precedent to the delivery of such cash, give a bond satisfactory to the Purchaser and the Depositary (acting reasonably) in such sum as the Purchaser may direct, or otherwise indemnify the Purchaser and the Company in a manner satisfactory to the Purchaser and the Company, acting reasonably, against any claim that may be made against the Purchaser and the Company with respect to the certificate alleged to have been lost, stolen or destroyed.

**Section 4.3 Withholding Rights**

The Purchaser, the Company or the Depositary shall be entitled to deduct and withhold from any amount payable to any Person under this Plan of Arrangement (including, without limitation, any

amounts payable pursuant to Section 3.1), such amounts as the Purchaser, the Company or the Depositary determines, acting reasonably, are required or permitted to be deducted and withheld with respect to such payment under the Tax Act, the United States Internal Revenue Code of 1986 or any provision of any other Law. To the extent that amounts are so withheld, such withheld amounts shall be treated for all purposes hereof as having been paid to the Person in respect of which such withholding was made, provided that such amounts are actually remitted to the appropriate taxing authority.

**Section 4.4 No Liens**

Any exchange or transfer of securities pursuant to this Plan of Arrangement shall be free and clear of any Liens or other claims of third parties of any kind.

**Section 4.5 Paramountcy**

From and after the Effective Time: (a) this Plan of Arrangement shall take precedence and priority over any and all Common Shares, Preferred Shares, Options, DSUs, RSUs and PSUs issued or outstanding prior to the Effective Time, (b) the rights and obligations of the Company Securityholders, the Company, the Parent, the Purchaser, the Depositary and any transfer agent or other depositary therefor in relation thereto, shall be solely as provided for in this Plan of Arrangement, and (c) all actions, causes of action, claims or proceedings (actual or contingent and whether or not previously asserted) based on or in any way relating to any Common Shares, Preferred Shares, Options, DSUs, RSUs or PSUs shall be deemed to have been settled, compromised, released and determined without liability except as set forth in this Plan of Arrangement.

## ARTICLE 5
## AMENDMENTS

**Section 5.1 Amendments to Plan of Arrangement**

(a) The Company and the Purchaser may amend, modify and/or supplement this Plan of Arrangement at any time and from time to time prior to the Effective Time, provided that each such amendment, modification and/or supplement must (i) be set out in writing, (ii) be approved by the Company and the Purchaser, each acting reasonably, (iii) filed with the Court and, if made following the Company Meeting, approved by the Court, and (iv) communicated to the Company Shareholders if and as required by the Court.

(b) Any amendment, modification or supplement to this Plan of Arrangement may be proposed by the Company or the Purchaser at any time prior to the Company Meeting (provided that the Company or the Purchaser, as applicable, shall have consented thereto) with or without any other prior notice or communication, and if so proposed and accepted by the Persons voting at the Company Meeting (other than as may be required under the Interim Order), shall become part of this Plan of Arrangement for all purposes.

(c) Any amendment, modification or supplement to this Plan of Arrangement that is approved or directed by the Court following the Company Meeting shall be effective only if (i) it is consented to in writing by each of the Company and the Purchaser (in each case, acting reasonably), and (ii) if required by the Court, it is consented to by some or all of the Common Shareholders and/or Preferred Shareholders voting in the manner directed by the Court.

(d) The Company and the Purchaser may, at any time following the Effective Date, amend, modify or supplement this Plan of Arrangement without the approval of Company Shareholders provided that each amendment, modification or supplement (i) must be set out in writing, (ii) must concern a matter which, in the reasonable opinion of each of the Company and the Purchaser is of an administrative nature required to better give effect to the implementation of this Plan of Arrangement, (iii) is not adverse to the economic interests of any former Common Shareholders and/or former Preferred Shareholders, and (iv) need not be filed with the Court or communicated to former Common Shareholders and/or former Preferred Shareholders.

## ARTICLE 6
## FURTHER ASSURANCES

**Section 6.1 Further Assurances**

Notwithstanding that the transactions and events set out in this Plan of Arrangement shall occur and shall be deemed to occur in the order set out in this Plan of Arrangement without any further act or formality, each of the Parties shall make, do and execute, or cause to be made, done and executed, all such further acts, deeds, agreements, transfers, assurances, instruments or documents as may reasonably be required by either of them in order to further document or evidence any of the transactions or events set out in this Plan of Arrangement.

## Schedule B – Arrangement Resolution

**BE IT RESOLVED THAT:**

1. The arrangement (the "**Arrangement**") under Chapter XVI – Division II of the *Business Corporations Act* (Quebec) of RONA inc. (the "**Company**"), pursuant to the arrangement agreement (the "**Arrangement Agreement**") among the Company, Lowe's Companies Canada, ULC and Lowe's Companies, Inc. dated February 2, 2016, all as more particularly described and set forth in the management information circular of the Company dated ●, 2016 (the "**Circular**"), accompanying this notice of meeting (as the Arrangement may be modified or amended in accordance with its terms) is hereby authorized, approved and adopted.

2. The plan of arrangement (as it has been or may be amended, modified or supplemented in accordance with the Arrangement Agreement and its terms, the "**Plan of Arrangement**"), the full text of which is set out as Appendix ● to the Circular, is hereby authorized, approved and adopted.

3. The (i) Arrangement Agreement and related transactions, (ii) actions of the directors of the Company in approving the Arrangement Agreement, and (iii) the actions of the directors and officers of the Company in executing and delivering the Arrangement Agreement, and any amendments, modifications or supplements thereto, are hereby ratified and approved.

4. Notwithstanding that this resolution has been passed (and the Arrangement adopted) by the Common Shareholders (as defined in the Arrangement Agreement) or that the Arrangement has been approved by the Quebec Superior Court (the "**Court**"), the directors of the Company are hereby authorized and empowered, at their discretion, without notice to or approval of the Common Shareholders: (i) to amend, modify or supplement the Arrangement Agreement or the Plan of Arrangement to the extent permitted by the Arrangement Agreement; and (ii) subject to the terms of the Arrangement Agreement, not to proceed with the Arrangement.

5. Any officer or director of the Company be and is hereby authorized for and on behalf of the Company to make an application to the Court for an order approving the Arrangement and to execute, under corporate seal or otherwise, and to deliver or cause to be delivered, for filing with the enterprise registrar appointed by the Minister of Revenue of Quebec, articles of arrangement and all such other documents and instruments as are necessary or desirable to give effect to the Arrangement in accordance with the Arrangement Agreement, such determination to be conclusively evidenced by the execution and delivery of such articles of arrangement or any such other document or instrument.

6. Any officer or director of the Company is hereby authorized and directed for and on behalf of the Company to execute or cause to be executed and to deliver or cause to be delivered, all such other documents and instruments and to perform or cause to be performed all such other acts and things as, in such person's opinion, may be necessary or desirable to give full force and

effect to the foregoing resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such other document or instrument or the doing of any other such act or thing.

**Schedule C – Preferred Shareholder Resolution**

**BE IT RESOLVED THAT:**

1. The arrangement (the "**Arrangement**") under Chapter XVI – Division II of the *Business Corporations Act* (Quebec) of RONA inc. (the "**Company**"), pursuant to the arrangement agreement (the "**Arrangement Agreement**") among the Company, Lowe's Companies Canada, ULC and Lowe's Companies, Inc. dated February 2, 2016, all as more particularly described and set forth in the management information circular of the Company dated ●, 2016 (the "**Circular**"), accompanying this notice of meeting (as the Arrangement may be modified or amended in accordance with its terms) is hereby authorized, approved and adopted.

2. The plan of arrangement (as it has been or may be amended, modified or supplemented in accordance with the Arrangement Agreement and its terms, the "**Plan of Arrangement**"), the full text of which is set out as Appendix ● to the Circular, is hereby authorized, approved and adopted.

3. The (i) Arrangement Agreement and related transactions, (ii) actions of the directors of the Company in approving the Arrangement Agreement, and (iii) the actions of the directors and officers of the Company in executing and delivering the Arrangement Agreement, and any amendments, modifications or supplements thereto, are hereby ratified and approved.

4. Notwithstanding that this resolution has been passed (and the Arrangement adopted) by the Preferred Shareholders (as defined in the Arrangement Agreement) or that the Arrangement has been approved by the Quebec Superior Court (the "**Court**"), the directors of the Company are hereby authorized and empowered, at their discretion, without notice to or approval of the Preferred Shareholders: (i) to amend, modify or supplement the Arrangement Agreement or the Plan of Arrangement to the extent permitted by the Arrangement Agreement; and (ii) subject to the terms of the Arrangement Agreement, not to proceed with the Arrangement.

5. Any officer or director of the Company be and is hereby authorized for and on behalf of the Company to make an application to the Court for an order approving the Arrangement and to execute, under corporate seal or otherwise, and to deliver or cause to be delivered, for filing with the enterprise registrar appointed by the Minister of Revenue of Quebec, articles of arrangement and all such other documents and instruments as are necessary or desirable to give effect to the Arrangement in accordance with the Arrangement Agreement, such determination to be conclusively evidenced by the execution and delivery of such articles of arrangement or any such other document or instrument.

6. Any officer or director of the Company is hereby authorized and directed for and on behalf of the Company to execute or cause to be executed and to deliver or cause to be delivered, all such other documents and instruments and to perform or cause to be performed all such other acts and things as, in such person's opinion, may be necessary or desirable to give full force and

effect to the foregoing resolutions and the matters authorized thereby, such determination to be conclusively evidenced by the execution and delivery of such other document or instrument or the doing of any other such act or thing.

## Schedule D – Representations and Warranties of the Company

(1) **Organization and Qualification.** The Company and each of its Subsidiaries is a corporation or other entity duly incorporated or organized, as applicable, validly existing and in good standing under the laws of the jurisdiction of its incorporation, organization or formation, as applicable, and has all requisite power and authority to own, lease and operate its assets and properties and conduct its business as now owned and conducted. The Company, each of its Subsidiaries is duly qualified, licensed or registered to carry on business and is in good standing in each jurisdiction in which the character of its assets and properties, owned, leased, licensed or otherwise held, or the nature of its activities make such qualification, licensing or registration necessary, and has all Authorizations required to own, lease and operate its properties and assets and to conduct its business as now owned and conducted, except for those Authorizations the absence of which do not have and would not be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect.

(2) **Corporate Authorization.** The Company has the requisite corporate power and authority to enter into and perform its obligations under this Agreement. The execution, delivery and performance by the Company of its obligations under this Agreement and the consummation of the Arrangement and the other transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of the Company and no other corporate proceedings on the part of the Company are necessary to authorize this Agreement or the consummation of the Arrangement and the other transactions contemplated hereby other than approval by the Common Shareholders in the manner required by the Interim Order and Law and approval by the Court.

(3) **Execution and Binding Obligation.** This Agreement has been duly executed and delivered by the Company, and constitutes a legal, valid and binding agreement of the Company enforceable against it in accordance with its terms subject only to any limitation under bankruptcy, insolvency or other Laws affecting the enforcement of creditors' rights generally and the discretion that a court may exercise in the granting of equitable remedies such as specific performance and injunction.

(4) **Governmental Authorization.** The execution, delivery and performance by the Company of its obligations under this Agreement and the consummation of the Arrangement and the other transactions contemplated hereby do not require any Authorization or other action by or in respect of, or filing with, or notification to, any Governmental Entity by the Company or by any of its Subsidiaries other than: (i) the Interim Order and any approvals required by the Interim Order; (ii) the Final Order; (iii) filings with the Enterprise Registrar under the QBCA; (iv) in relation to the Regulatory Approvals; and (v) filings with the Securities Authorities and the Exchange.

(5) **Non-Contravention.** The execution, delivery and performance by the Company of its obligations under this Agreement and the consummation of the Arrangement and the other

transactions contemplated hereby do not and will not (or would not with the giving of notice, the lapse of time or the happening of any other event or condition):

(a) contravene, conflict with, or result in any violation or breach of the Company's Constating Documents or the organizational documents of any of its Subsidiaries;

(b) assuming compliance with the matters referred to in Paragraph (4) above, contravene, conflict with or result in a violation or breach of Law;

(c) except as disclosed in Section 3.1(5)(c) of the Company Disclosure Letter, allow any Person to exercise any rights, require any consent or other action by any Person, or constitute a default under, or cause or permit the termination, cancellation, acceleration or other change of any right or obligation or the loss of any benefit to which the Company or any of its Subsidiaries are entitled (including by triggering any rights of first refusal or first offer, change in control provision or other restriction or limitation) under any Contract, lease or other instrument, indenture, deed of trust, mortgage, bond or any Authorization to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound; or

(d) result in the creation or imposition of any Lien upon any of the properties or assets of the Company or its Subsidiaries;

with such exceptions, in the case of clauses (b) through (d), as would not be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect.

(6) **Capitalization.**

(a) The authorized capital of the Company consists of an unlimited number of Common Shares and an unlimited number of Class "A", Class "B", Class "C" and Class "D" preferred shares, of which classes "A" and "C" are issuable in series. As of the close of business on the date of this Agreement, there were 106,904,501 Common Shares issued and outstanding, 6,900,000 Series 6 Class A Preferred Shares issued and outstanding and no Series 7 Class A Preferred Shares issued and outstanding. In addition, as of the date hereof, the Company has issued and outstanding $116,829,000 aggregate principal amount of Debentures. All outstanding Common Shares and Preferred Shares have been duly authorized and validly issued, are fully paid and non-assessable. All of the Common Shares issuable upon the exercise of rights under the Stock Option Plans, including outstanding Options, have been duly authorized and, upon issuance in accordance with their respective terms, will be validly issued as fully paid and non-assessable and are not and will not be subject to or issued in violation of, any pre-emptive rights. No Common Shares or Preferred Shares have been issued and no Options have been granted in violation of any Law or any pre-emptive or similar rights applicable to them.

(b) Section 3.1(6)(b) of the Company Disclosure Letter sets forth, in respect of each Option outstanding as of the date of this Agreement: (i) the number of Common Shares issuable upon exercise (including the aggregate total of all Common Shares issuable upon exercise of all outstanding Options); (ii) the purchase price payable; (iii) the date of grant; (iv) the date of expiry; and (v) the name of the registered holder, identifying whether such holder is not an employee of the Company or of its Subsidiaries. The Stock Option Plans and the issuance of Common Shares under such plan (including all outstanding Options) have been duly authorized by the Board in compliance with Law and the terms of the applicable Stock Option Plan, and have been recorded on the Company's financial statements in accordance with GAAP, and no such grants involved any "back dating," "forward dating," "spring loading" or similar practices.

(c) Section 3.1(6)(c) of the Company Disclosure Letter sets forth, as of the date of this Agreement, the number of outstanding DSUs, RSUs and PSUs, the name of the holder of each DSU, RSU and PSU, identifying whether such holder is not an employee of the Company or of its Subsidiaries and the exercise price or issuance price, vesting schedule, vested percentage and expiration dates, as applicable, of such DSUs, RSUs and PSUs.

(d) Except for rights under the Stock Option Plans, including outstanding Options, the rights under the Rights Plan and pursuant to the terms of the Preferred Shares as set out in Section 3.1(6)(d) of the Company Disclosure Letter, there are no issued, outstanding or authorized options, equity-based awards, warrants, calls, conversion, pre-emptive, redemption, repurchase, stock appreciation or other rights, or any other agreements, arrangements, instruments or commitments of any kind that obligate the Company or any of its Subsidiaries to, directly or indirectly, issue or sell any securities of the Company or of any of its Subsidiaries, or give any Person a right to subscribe for or acquire, any securities of the Company or of any of its Subsidiaries.

(e) There are no issued, outstanding or authorized:

(i) obligations to repurchase, redeem or otherwise acquire any securities of the Company or of any of its Subsidiaries, or qualify securities for public distribution in Canada, the U.S. or elsewhere, or with respect to the voting or disposition of any securities of the Company or of any of its Subsidiaries; or

(ii) notes, bonds, debentures or other evidences of indebtedness or any other agreements, arrangements, instruments or commitments of any kind that give any Person, directly or indirectly, the right to vote with holders of Common Shares on any matter.

(f) All dividends or distributions on securities of the Company that have been declared or authorized have been paid in full.

(7) **Shareholders' and Similar Agreements.** Except as disclosed in Section 3.1(7) of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries is subject to, or affected by, any unanimous shareholders agreement and is not a party to any shareholder, pooling, voting, or other similar arrangement or agreement relating to the ownership or voting of the securities of the Company or of any of its Subsidiaries or pursuant to which any Person may have any right or claim in connection with any existing or past equity interest in the Company or in any of its Subsidiaries.

(8) **Rights Plan.** The Company has taken all necessary action so that neither the execution and delivery of this Agreement nor the consummation of the Arrangement and the transactions contemplated hereby will: (i) cause the rights under the Rights Plan to become exercisable; (ii) cause any person to become an Acquiring Person (as defined in the Rights Plan); or (iii) give rise to a Separation Time or a Flip-in Event (each as defined in the Rights Plan).

(9) **Subsidiaries.**

(a) The following information with respect to each Subsidiary of the Company is accurately set out in Section 3.1(9)(a) of the Company Disclosure Letter: (i) its name; (ii) the number, type and principal amount, as applicable, of its outstanding equity securities or other equity interests and a list of registered holders of capital stock or other equity interests; and (iii) its jurisdiction of incorporation, organization or formation.

(b) Except as disclosed in Section 3.1(9)(b)(i) of the Company Disclosure Letter, the Company is, directly or indirectly, the registered and beneficial owner of all of the outstanding common shares or other equity interests of each of its Subsidiaries, free and clear of any Liens, all such shares or other equity interests so owned by the Company have been validly issued and are fully paid and non-assessable, as the case may be, and no such shares or other equity interests have been issued in violation of any pre-emptive or similar rights. Except for the shares or other equity interests owned by the Company in any Subsidiary and except as disclosed in Section 3.1(9)(b)(ii) of the Company Disclosure Letter, the Company does not own, beneficially or of record, any equity interests of any kind in any other Person.

(10) **Securities Law Matters.** The Company is a "reporting issuer" under Canadian Securities Laws in each of the provinces of Canada. The Common Shares and the Preferred Shares are listed and posted for trading on the Exchange. None of the Company's Subsidiaries are subject to any continuous or periodic, or other disclosure requirements under any securities laws in any jurisdiction. The Company is not in default of any material requirements of any Securities Laws or the rules and regulations of the Exchange. The Company has not taken any action to cease to be a reporting issuer in any province of Canada nor has the Company received notification from any Securities Authority seeking to revoke the reporting issuer status of the Company. No delisting, suspension of trading or cease trade or other order or restriction with respect to any securities of the Company is pending, in effect, has been threatened, or is expected to be implemented or undertaken, and to the knowledge of the Company, the Company is not subject

to any formal or informal review, enquiry, investigation or other proceeding relating to any such order or restriction. The Company has timely filed or furnished with any Governmental Entity all material forms, reports, schedules, statements and other documents required to be filed or furnished by the Company pursuant to Securities Laws with the appropriate Governmental Entity since January 1, 2013. The documents comprising the Company Filings complied as filed in all material respects with Securities Laws and did not, as of the date filed (or, if amended or superseded by a subsequent filing prior to the date of this Agreement, on the date of such filing), contain any Misrepresentation. The Company has not filed any confidential material change report (which at the date of this Agreement remains confidential) or any other confidential filings (except for redactions permitted by Securities Laws) filed to or furnished with, as applicable, any Securities Authority. There are no outstanding or unresolved comments in comments letters from any Securities Authority with respect to any of the Company Filings and, to the knowledge of the Company, neither the Company nor any of the Company Filings is subject of an ongoing audit, review, comment or investigation by any Securities Authority or the Exchange.

(11) **U.S. Securities Law Matters.**

(a) The Company does not have, nor is it required to have, any class of securities registered under the *Securities Exchange Act of 1934* of the United States of America, nor is the Company subject to any reporting obligation (whether active or suspended) pursuant to section 15(d) of the *Securities Exchange Act of 1934* of the United States of America.

(b) The Company is not, and has never been, subject to any requirement to register any class of its equity securities pursuant to Section 12(g) of the *Securities Exchange Act of 1934* of the United States of America, is not an investment company registered or required to be registered under the *Investment Company Act of 1940* of the United States of America, and is a "foreign private issuer" (as such term is defined in Rule 3b-1 under the *Securities Exchange Act of 1934* of the United States of America).

(c) No securities of the Company are listed on any national securities exchange in the United States.

(12) **Financial Statements.**

(a) The audited consolidated financial statements and the consolidated interim financial statements of the Company (including, in each case, any the notes or schedules to and the auditor's report on such financial statements) included in the Company Filings: (i) were prepared or shall be prepared, as applicable, in accordance with GAAP and Law; (ii) complied or shall comply, as applicable, as to form in all material respects with applicable accounting requirements in Canada; and (iii) fairly present or shall fairly present, as applicable, in all material respects, the assets, liabilities (whether accrued,

absolute, contentment or otherwise), consolidated financial position, results of operations or financial performance and cash flows of the Company and its Subsidiaries as of their respective dates and the consolidated financial position, results of operations or financial performance and cash flows of the Company and its Subsidiaries for the respective periods covered by such financial statements (except as may be expressly indicated in the notes to such financial statements). The Company does not intend to correct or restate, nor, to the knowledge of the Company is there any basis for any correction or restatement of, any aspect of any of the financial statements referred to in this Paragraph (12). There are no, nor are there any commitments to become a party to, any off-balance sheet transaction, arrangement, obligation (including contingent obligations) or other relationship of the Company or of any of its Subsidiaries with unconsolidated entities or other Persons, other than operating leases for equipment and inventory buy-back agreements in the Ordinary Course and the Leases.

(b) The financial books, records and accounts of the Company and each of its Subsidiaries: (i) have been maintained, in all material respects, in accordance with GAAP; (ii) are stated in reasonable detail; (iii) accurately and fairly reflect all the material transactions, acquisitions and dispositions of the Company and its Subsidiaries; and (iv) accurately and fairly reflect the basis of the Company's financial statements.

(13) **Disclosure Controls and Internal Control over Financial Reporting.**

(a) The Company has established and maintains a system of disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted by it under Securities Laws is recorded, processed, summarized and reported within the time periods specified in Securities Laws. Such disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Company in its annual filings, interim filings or other reports filed or submitted under Securities Laws are accumulated and communicated to the Company's management, including its chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosed.

(b) The Company has established and maintains a system of internal control over financial reporting that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

(c) To the knowledge of the Company, there is no material weakness (as such term is defined in National Instrument 52-109 – Certification of Disclosure in Issuers' Annual and Interim Filings)) relating to the design, implementation or maintenance of its internal control over financial reporting, or fraud, whether or not material, that involves

management or other employees who have a significant role in the internal control over financial reporting of the Company. To the knowledge of the Company, none of the Company, any of its Subsidiaries or any director, officer, auditor, accountant or representative of the Company or any of its Subsidiaries has received or otherwise obtained knowledge of any material complaint, allegation, assertion, or claim, whether written or oral, regarding accounting, internal accounting controls or auditing matters, including any material complaint, allegation, assertion, or claim that the Company or any of its Subsidiaries has engaged in questionable accounting or auditing practices, or any expression of concern from its employees regarding questionable accounting or auditing matters.

(14) **Auditors.** The auditors of the Company are independent public accountants as required by applicable Laws and there is not now, and there has never been, any reportable event (as defined in National Instrument 51-102 – *Continuous Disclosure Obligations*) with the present or any former auditors of the Company.

(15) **No Undisclosed Liabilities.** There are no material liabilities or obligations of the Company or of any of its Subsidiaries of any kind whatsoever, whether accrued, contingent, absolute, determined, determinable or otherwise, other than liabilities or obligations: (i) disclosed in the Company's financial statements or in the notes thereto; (ii) incurred in the Ordinary Course since December 31, 2014; or (iii) incurred in connection with this Agreement. The principal amount of all indebtedness for borrowed money of the Company and its Subsidiaries as of the date hereof, including capital leases, is disclosed in Section 3.1(15) of the Company Disclosure Letter.

(16) **Absence of Certain Changes or Events.** Since December 31, 2014, other than the transactions contemplated in this Agreement, the business of the Company and its Subsidiaries has been conducted in the Ordinary Course and there has not occurred a Material Adverse Effect.

(17) **Ordinary Course**.

(a) Except as disclosed in Section 3.1(17)(a) of the Company Disclosure Letter, since December 31, 2014:

(i) the Company and each of its Subsidiaries has conducted their respective business only in the Ordinary Course;

(ii) no liability or obligation of any nature (whether absolute, accrued, contingent or otherwise) which has had, or is reasonably likely to have, a Material Adverse Effect has been incurred;

(iii) there has not been any material change in the accounting practices used by the Company and its Subsidiaries;

(iv) except for Ordinary Course adjustments to employees (other than directors or officers), there has not been any increase in the salary, bonus, or other remuneration payable to any non-executive employees of any of Company or its Subsidiaries;

(v) there has not been a material change in the level of accounts receivable or payable, inventories or employees, other than those changes in the Ordinary Course;

(vi) there has not been any entering into, or an amendment of, any Material Contract other than in the Ordinary Course;

(vii) there has not been any satisfaction or settlement of any material claims or material liabilities that were not reflected in the Company's audited financial statements, other than the settlement of claims or liabilities incurred in the Ordinary Course; and

(viii) except for Ordinary Course adjustments, there has not been any increase in the salary, bonus, or other remuneration payable to any officers of the Company or its Subsidiaries or any amendment or modification to the vesting or exercisability schedule or criteria, including any acceleration, right to accelerate or acceleration event or other entitlement under any stock option, restricted stock, deferred compensation or other compensation award of any officer of the Company or any of its Subsidiaries.

(18) **Long-Term and Derivative Transactions.** Neither the Company nor any of its Subsidiaries have any material obligations or liabilities, direct or indirect, vested or contingent in respect of any rate swap transactions, basis swaps, forward rate transactions, commodity swaps, commodity options, equity or equity index swaps, equity or equity index options, bond options, interest rate options, foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions or currency options or any other similar transactions (including any option with respect to any of such transactions) or any combination of such transactions, except in the Ordinary Course.

(19) **Related Party Transactions.** Neither the Company nor any of its Subsidiaries is indebted to any director, officer, employee or agent of, or independent contractor to, the Company or any of its Subsidiaries or any of their respective affiliates or associates (except for amounts due in the Ordinary Course as salaries, bonuses and director's fees or the reimbursement of Ordinary Course expenses). There are no Contracts (other than employment arrangements) with, or advances, loans, guarantees, liabilities or other obligations to, on behalf or for the benefit of, any shareholder, officer or director of the Company or any of its Subsidiaries, or any of their respective affiliates or associates.

(20) **No "Collateral Benefit"**. To the knowledge of the Company, no related party of the Company (within the meaning of Multilateral Instrument 61-101) together with its associated entities,

beneficially owns or exercises control or direction over 1% or more of the outstanding Common Shares, except for related parties who will not receive a "collateral benefit" (within the meaning of such instrument) as a consequence of the transactions contemplated by this Agreement.

(21) **Compliance with Laws.** Each of the Company and each of its Subsidiaries is, and since January 1, 2011 has been, in compliance in all material respects with Law. Since January 1, 2013, neither the Company nor any of its Subsidiaries is or has been, to the knowledge of the Company, under any investigation with respect to, is or has been charged or, to the knowledge of the Company, threatened to be charged with, or has received notice of, any violation or potential violation of any Law or disqualification by a Governmental Entity.

(22) **Authorizations and Licenses.**

(a) The Company and each of its Subsidiaries own, possess or have obtained all Authorizations that are required by Law in connection with the operation of the business of the Company and its Subsidiaries as presently or previously conducted, or in connection with the ownership, operation or use of the Company Assets, except as would not, individually or in the aggregate, have a Material Adverse Effect.

(b) The Company or its Subsidiaries, as applicable, lawfully hold, own or use, and have complied with, all such Authorizations, except as would not, individually or in the aggregate, have a Material Adverse Effect. Each Authorization is valid and in full force and effect, and is renewable by its terms or in the Ordinary Course, except as would not, individually or in the aggregate have a Material Adverse Effect.

(c) Except as disclosed in Section 3.1(22)(c) of the Company Disclosure Letter, to the knowledge of the Company, no action, investigation or proceeding is, (i) pending in respect of or regarding any such Authorization and (ii) none of the Company or any of its Subsidiaries has received notice, whether written or oral, of revocation, non-renewal or material amendments of any such Authorization, or of the intention of any Person to revoke, refuse to renew or materially amend any such Authorization.

(23) **Opinions of Financial Advisors.**

The Board and the Special Committee have received the Fairness Opinions. A true and complete copy of the engagement letter between the Company and Scotia Capital Inc. has been disclosed to Stikeman Elliott LLP and the Company has made true and complete disclosure to the Purchaser of all fees, commissions or other payments that may be incurred pursuant to such engagement or that may otherwise be payable to Scotia Capital Inc.

(24) **Finders' Fees.**

Except for the engagement letter between the Company and Scotia Capital Inc. and the fees payable under or in connection with such engagement, no investment banker, broker, finder, financial adviser or other intermediary has been retained by or is authorized to act on behalf of the Company or any of its Subsidiaries, or any of their respective officers, directors or employees, or is entitled to any fee, commission or other payment from the Company or any of its Subsidiaries, or any of their respective officers, directors or employees, in connection with the Agreement.

(25) **Board and Special Committee Approval**.

(a) The Special Committee, after consultation with its financial and legal advisors, has unanimously recommended that the Board approve the Arrangement and that the Common Shareholders vote in favour of the Arrangement Resolution and the Preferred Shareholders vote in favour of the Preferred Shareholder Resolution.

(b) The Board, acting on the unanimous recommendation in favour of the Arrangement by the Special Committee, has unanimously: (i) determined that the Consideration to be received by the Company Shareholders pursuant to the Arrangement and this Agreement is fair to such holders and that the Arrangement is in the best interests of the Company and the Company Shareholders; (ii) resolved to unanimously recommend that the Common Shareholders vote in favour of the Arrangement Resolution and the Preferred Shareholders vote in favour of the Preferred Shareholder Resolution; and (iii) authorized the entering into of this Agreement and the performance by the Company of its obligations under this Agreement, and no action has been taken to amend, or supersede such determinations, resolutions, or authorizations.

(c) Each of the directors and executive officers of the Company listed in Section 1.2(6) of this Agreement has advised the Company and the Company believes that they intend to vote or cause to be voted all Company Shares beneficially held by them in favour of the Arrangement Resolution and the Preferred Shareholder Resolution, as applicable, and the Company shall make a statement to that effect in the Company Circular.

(26) **Material Contracts.**

(a) Section 3.1(26)(a) of the Company Disclosure Letter sets out a complete and accurate list of all Material Contracts other than Leases. True and complete copies of the Material Contracts other than Leases have been disclosed in the Data Room and no such Contract has, since such disclosure, been modified, rescinded or terminated.

(b) Each Material Contract other than Leases is legal, valid, binding and in full force and effect and is enforceable by the Company or a Subsidiary, as applicable, in accordance

with its terms (subject to bankruptcy, insolvency and other Laws affecting creditors' rights generally, and to general principles of equity).

(c) Except as disclosed in Section 3.1(26)(c) of the Company Disclosure Letter, each of the Company and each of its Subsidiaries has performed in all material respects all respective obligations required to be performed by them to date under the Material Contracts other than the Leases and neither the Company nor any of its Subsidiaries is in material breach or default under any Material Contract other than the Leases, nor does the Company have knowledge of any condition that with the passage of time or the giving of notice or both would result in such a material breach or default.

(d) Except as disclosed in Section 3.1(26)(d) of the Company Disclosure Letter, none of the Company or any of its Subsidiaries knows of, or has received any notice (whether written or oral) of, any breach or default under nor, to the knowledge of the Company, does there exist any condition which with the passage of time or the giving of notice or both would result in such a breach or default under any such Material Contract by any other party to a Material Contract.

(e) None of the Company or any of its Subsidiaries has received any written notice, that any party to a Material Contract other than Leases intends to cancel, terminate or otherwise modify or not renew its relationship with the Company or with any of its Subsidiaries, and, to the knowledge of the Company, no such action has been threatened.

(27) **Real Property.**

(a) Section 3.1(27)(a) of the Company Disclosure Letter sets out a complete and accurate list of all real and immoveable property owned by the Company and/or its Subsidiaries (each such property disclosed, or required to be disclosed, in Section 3.1(27)(a) of the Company Disclosure Letter, an "**Owned Property**"), in each case by reference to their municipal addresses.

(b) Other than as disclosed in Section 3.1(27)(b) of the Company Disclosure Letter, (i) the Company or one of its Subsidiaries has valid, good and marketable title to the Owned Properties and leasehold title to the Leased Properties free and clear of all Liens except for Permitted Liens, (ii) there are no options or rights of first refusal to purchase the Owned Properties or any portion thereof or interest therein, and (iii) neither the Company nor any of its Subsidiaries is the owner of, or is bound by or subject to any agreement or option to own, any real or immoveable property other than the Owned Properties.

(c) Section 3.1(27)(c) of the Company Disclosure Letter sets out a complete and accurate list of all real and immoveable property leased, subleased, licensed and/or (other than the Owned Properties) occupied by the Company and/or its Subsidiaries, other than *de minimis* leases for immaterial, non-retail, leased premises within joint venture entities

which premises are not used in the operation of the business of the Company (each such property disclosed, or required to be disclosed, in Section 3.1(27)(c) of the Company Disclosure Letter, a "**Leased Property**"), in each case by reference to their municipal addresses.

(d) Section 3.1(27)(d) of the Company Disclosure Letter sets out a complete and accurate list of all of the Leases. True and complete copies of the Leases have been disclosed in the Data Room and no Lease has been modified, rescinded or terminated since such disclosure and other than as disclosed in Section 3.1(27)(e) of the Company Disclosure Letter.

(e) Except as disclosed in Section 3.1(27)(e) of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries is a party to, or under any agreement to become a party to, any lease, licence or occupancy agreement with respect to real or immoveable property other than the Leases in respect of the Leased Properties.

(f) Each Lease creates a good and valid leasehold estate in the Leased Properties thereby demised and is in full force and effect without amendment.

(g) With respect to each Lease (i) except as disclosed in Section 3.1(27)(g) of the Company Disclosure Letter, all rents and additional rents have been paid, (ii) no waiver, indulgence or postponement of the lessee's obligations has been granted by the lessor, (iii) there exists no event of default or event, occurrence, condition or act (including the transactions contemplated herein) which, with the giving of notice, the lapse of time or the happening of any other event or condition, would become a default under the Lease, and (iv) to the knowledge of the Company, all of the covenants to be performed by any other party under the Lease have been performed in all material respects.

(h) No third party has repudiated or has the right to terminate or repudiate any such lease, sublease, license or occupancy agreement (except for the normal exercise of remedies in connection with a default thereunder or any termination rights set forth in the lease, sublease, license or occupancy agreement) or any provision thereof.

(i) Except as disclosed in Section 3.1(27)(i) of the Company Disclosure Letter, none of the Leases has been assigned, and none of the Leased Properties or Owned Properties has been leased, subleased or sublicensed by the Company or any of its Subsidiaries, to any Person.

(j) None of the Leased Properties or Owned Properties or the buildings and/or fixtures thereon, nor their use, operation or maintenance for the purpose of carrying on the business of the Company in the ordinary course violates in any material respect any restrictive covenant binding upon the Company or any Owned Property or any Leased Property or any provision of any Law.

(k) Neither the Company nor any of its Subsidiaries owes any sums in respect of the Liens described in Section 3.1(27)(k) of the Company Disclosure Letter and such Liens are not in respect of any current binding obligation of the Company and its Subsidiaries.

(28) **Personal Property.** The Company and/or its Subsidiaries have valid, good and marketable title to all material personal or movable property of any kind or nature which the Company or any of its Subsidiaries purports to own, free and clear of all Liens (other than Permitted Liens), except as would not, individually or in the aggregate, have a Material Adverse Effect. The Company and its Subsidiaries, as lessees, have the right under valid and subsisting leases to use, possess and control all personal or movable property leased by and material to the Company or any of its Subsidiaries as used, possessed and controlled by the Company or its Subsidiaries, as applicable, except as would not, individually or in the aggregate, have a Material Adverse Effect.

(29) **Intellectual Property.** Except as would not and would not be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect: (i) the Company, and/or its Subsidiaries own all right, title and interest in and to, or have validly licensed (and are not in material breach of such licenses), all Intellectual Property that is material to the conduct of the business, as presently conducted, of the Company and its Subsidiaries (collectively, the "**Intellectual Property Rights**"); (ii) all such Intellectual Property Rights that are owned by or licensed to the Company, and/or its Subsidiaries are sufficient, in all material respects, for conducting the business, as presently conducted, of the Company and its Subsidiaries; (iii) to the knowledge of the Company, all Intellectual Property Rights owned or leased by the Company and/or its Subsidiaries are valid and enforceable, and to the knowledge of the Company, the carrying on of the business of the Company and its Subsidiaries and the use by the Company and its Subsidiaries of any of the Intellectual Property Rights or Technology (as defined below) owned by or licensed to them does not breach, violate, infringe or interfere with any rights of any other Person; (iv) except as disclosed in Section 3.1(29)(iv) of the Company Disclosure Letter, to the knowledge of the Company, no third party is infringing upon the Intellectual Property Rights owned or licensed by the Company or its Subsidiaries; (v) all computer hardware and associated firmware and operating systems, application software, database engines and processed data, technology infrastructure and other computer systems used in connection with the conduct of the business, as presently conducted, of the Company and its Subsidiaries (collectively, the "**Technology**") are sufficient, in all material respects, for conducting the business, as presently conducted, of the Company and its Subsidiaries; and (vi) the Company and its Subsidiaries own or have validly licensed or leased (and are not in material breach of such licenses or leases) such Technology.

(30) **Restrictions on Conduct of Business.** Except as disclosed in Section 3.1(30) of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries is a party to or bound by any non-competition agreement, any non-solicitation agreement, or any other agreement, obligation, judgment, injunction, order or decree which purports to: (i) limit in any material respect the

manner or the localities in which all or any portion of the business of the Company or its Subsidiaries are conducted; (ii) limit any business practice of the Company or of any of its Subsidiaries in any material respect; or (iii) restrict any acquisition or disposition of any property by the Company or by any of its Subsidiaries in any material respect. Neither the Company nor any of its Subsidiaries or any of their respective properties or assets is subject to any outstanding judgment, order, writ, injunction or decree that would have or would be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect or that would or would be reasonably expected to prevent or delay the consummation of the Arrangement or the transactions contemplated hereby.

(31) **Litigation.** There are no claims, actions, suits, arbitrations, inquiries, investigations or proceedings pending, or, to the knowledge of the Company threatened, against or relating to the Company or any of its Subsidiaries, the business of the Company or of any of its Subsidiaries or affecting any of their respective current or former properties or assets by or before any Governmental Entity that, if determined adverse to the interests of the Company or its Subsidiaries, could potentially result in criminal sanction, have or would be reasonably expected to have, individually or in the aggregate, a Material Adverse Effect, would or would be reasonably expected to prevent or delay the consummation of the Arrangement or the transactions contemplated hereby, nor to the knowledge of the Company are there any events or circumstances which could reasonably be expected to give rise to any such claim, action, suit, arbitration, inquiry, investigation or proceeding. There is no bankruptcy, liquidation, winding-up or other similar proceeding pending or in progress, or, to the knowledge of the Company, threatened against or relating to the Company or any of its Subsidiaries before any Governmental Entity.

(32) **Environmental Matters.**

(a) Except as disclosed in Section 3.1(32)(a) of the Company Disclosure Letter, no written notice, order, complaint or penalty has been received by the Company or any of its Subsidiaries alleging that the Company or any of its Subsidiaries is in violation of, or has any liability or potential liability under, any Environmental Law, and there are no judicial, administrative or other actions, suits or proceedings pending or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries which allege a violation of, or any liability or potential liability under, any Environmental Laws; and except as disclosed in Section 3.1(32)(a) of the Company Disclosure Letter, the Company is not aware of any facts or circumstances that reasonably could be expected to give rise to any such notice, claim, order, complaint or penalty.

(b) The Company and each of its Subsidiaries has all material environmental permits necessary for the operation of their respective businesses and to comply with all Environmental Laws;

(c) The operations of the Company and each of its Subsidiaries are, and since January 1, 2011 have been, in compliance in all material respects with Environmental Laws.

(d) Except as disclosed in Section 3.1(32)(d) of the Company Disclosure Letter, to the knowledge of the Company, there are no Hazardous Substances in the soil or groundwater at any Owned Property or Leased Property that would result or reasonably be expected to result in material liability to the Company or any of its Subsidiaries.

(33) **Employees.**

(a) Section 3.1(33)(a) of the Company Disclosure Letter sets out (without names or employee numbers) a true and complete list of all Senior Management Employees, whether actively at work or not, including their respective location, hire date and cumulative length of service, position, compensation (including but not limited to salary, bonus and commissions), eligibility to participate in short-term and long-term incentive plans (and grants received under these plans, if any), benefits, vacation entitlement in days, current status (full time or part-time, active or non-active (and if non-active, the reason for leave)) and whether they are subject to a written employment Contract as well as a list of all former Senior Management Employees to whom the Company or any of its Subsidiaries has or may have any outstanding obligations, indicating the nature and the value of such obligations.

(b) Section 3.1(33)(b) of the Company Disclosure Letter contains a correct and complete list of each independent contractor engaged by the Company or any subsidiary with an aggregate annual compensation in excess of $100,000, including their consulting fees, any other forms of compensation or benefits to which they are entitled and whether they are subject to a written Contract. Current and complete copies of all such independent contractor Contracts that provide for base fees in excess of $100,000 per annum have been disclosed in the Data Room. Each independent contractor of the Company has been properly classified as an independent contractor and neither the Company nor any Subsidiary has received any notice from any Governmental Entity disputing such classification.

(c) All written Contracts in relation to Senior Management Employees have been disclosed in the Data Room. No such employee has indicated to the Company or its Subsidiaries that he or she intends to resign, retire or terminate his or her engagement with the Company as a result of the transactions contemplated by this Agreement or otherwise.

(d) The Company and its Subsidiaries are in material compliance with all terms and conditions of employment and all Law respecting employment, including pay equity, wages, hours of work, overtime, vacation, human rights and occupational health and

safety, and, other than as disclosed in Section 3.1(33)(d) of the Company Disclosure Letter there are no outstanding claims, complaints, investigations or orders under any such Law and there is no basis for such claim.

(e) All amounts due or accrued due for all salary, wages, bonuses, commissions, vacation with pay, sick days and benefits under Employee Plans and other similar accruals have either been paid or are accurately reflected in the books and records of the Company or of the applicable Subsidiary.

(f) Except as disclosed in Section 3.1(33)(f) of the Company Disclosure Letter, no Company Employee has any agreement as to length of notice or severance payment required to terminate his or her employment, other than such as results from Law from the employment of an employee without an agreement as to notice or severance.

(g) Except as disclosed in Section 3.1(33)(g) of the Company Disclosure Letter, there are no change of control payments, golden parachutes, severance payments, retention payments, Contracts or other agreements with current or former Company Employees providing for cash or other compensation or benefits upon the consummation of, or relating to, the Arrangement, including a change of control of the Company or of any of its Subsidiaries.

(h) Except as disclosed in Section 3.1(33)(h) of the Company Disclosure Letter, there are no material outstanding assessments, penalties, fines, liens, charges, surcharges, or other amounts due or owing pursuant to any workplace safety and insurance legislation and neither the Company nor any Subsidiary has been reassessed in any material respect under such legislation during the past three years and, to the knowledge of the Company, no audit of the Company or any Subsidiary is currently being performed pursuant to any applicable workplace safety and insurance legislation. As of the date of this Agreement, there are no claims or potential claims which may materially adversely affect the Company or any Subsidiary's accident cost experience.

(i) The Company has disclosed in the Data Room all orders and material inspection reports under applicable occupational health and safety legislation ("**OHSA**"). There are no charges pending under OHSA. The Company has complied in all material respects with any orders issued under OHSA and there are no appeals of any orders under OHSA currently outstanding.

(j) The Company and its Subsidiaries are in compliance with all terms and conditions of any work permits and Labour Market Impact Assessments received in respect of the engagement of foreign workers. No audit by any Governmental Authority is being conducted, or to the knowledge of the Company pending, in respect of any foreign workers and no such prior audit has resulted in the revocation of any work permit or Labour Market Impact Assessment.

(34) **Collective Agreements.**

(a) Section 3.1(34)(a) of the Company Disclosure Letter sets forth a complete list of all Collective Agreements. The Company and its Subsidiaries are in compliance in all material respects with the terms and conditions of such Collective Agreements.

(b) Other than the Collective Agreements disclosed in Section 3.1(34)(b) of the Company Disclosure Letter, no Collective Agreement is currently being negotiated in respect of Company Employees. The only Collective Agreements in force with respect to the Company Employees are the Collective Agreements, true, correct and complete copies of which have been disclosed in the Data Room, except for documents which do not materially modify any term or condition of employment of any Company Employees.

(c) Other than as disclosed in Section 3.1(34)(c) of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries has any material unresolved grievances, notice of default or statement of offence or material pending proceedings outstanding under any Collective Agreement or decree.

(d) Other than the Collective Agreements disclosed in Section 3.1(34)(d) of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries is a party, either directly or indirectly, or by operation of law to any other Collective Agreement and there are no outstanding material labour tribunal proceedings of any kind, including any proceedings which could result in certification of a trade union as bargaining agent for any Company Employees not already covered by a Collective Agreement, other than as disclosed in Section 3.1(34)(c) of the Company Disclosure Letter.

(e) Except in respect of the Collective Agreements disclosed in Section 3.1(34)(d) of the Company Disclosure Letter, no trade union, council of trade unions, employee bargaining agency or affiliated bargaining agent holds bargaining rights with respect to any of the employees of the Company by way of certification, interim certification, voluntary recognition, or succession rights, or has applied or, to the knowledge of the Company, threatened to apply to be certified as the bargaining agent of any employees of the Company.

(f) There are no pending or, to the Knowledge of the Company, threatened union organizing activities involving any Company Employees. There is no labour strike, dispute, work slowdown or stoppage pending or involving or, to the knowledge of the Company, threatened against the Company and, except as disclosed in in Section 3.1(34)(f) of the Company Disclosure Letter, no such event has occurred within the last five (5) years.

(g) None of the Company or any of its Subsidiaries has engaged in any lay-off activities within the past three (3) years that would violate group termination or lay-off requirements of the applicable provincial employment standards Law or other Law.

(h) The Company has not and is not engaged in any unfair labour practice and no unfair labour practice complaint, grievance or arbitration proceeding is pending or, to the knowledge of the Company, threatened against the Company.

(i) There are no outstanding labour tribunal proceedings of any kind or other event of any nature whatsoever, including any proceedings which could result in certification, interim certification, voluntary recognition, or succession rights of a trade union, council of trade unions, employee bargaining agencies, affiliated bargaining agent or any other Person as bargaining agent for any Company Employees not already covered by a Collective Agreement.

(j) To the knowledge of the Company, no trade union has applied to have the Company or any of its Subsidiaries declared a common, related or successor employer pursuant to the *Labour Relations Act* (Ontario), the *Labour Code* (Quebec) or any similar legislation in any jurisdiction in which the Company or any of its Subsidiaries carries on business.

(35) **Employee Plans.**

(a) Section 3.1(35)(a) of the Company Disclosure Letter lists all material Employee Plans. The Company has disclosed in the Data Room true, correct and complete copies of all such material Employee Plans as amended as of the date hereof, together with all related documentation including, without limitation, funding and investment management agreements, summary plan descriptions, the most recent actuarial reports (including, for greater certainty, actuarial valuations in respect of any multi-employer pension plan), financial statements, asset statements, and all material opinions and memoranda (whether externally or internally prepared) and material correspondence with all regulatory authorities or other relevant Persons. No changes have occurred or are reasonably expected to occur which would materially affect the information contained in the actuarial reports, financial statements or asset statements required to be provided to the Purchaser pursuant to this provision.

(b) Each material Employee Plan is and has been established, registered, administered, communicated, invested and qualified in accordance with Law, and in accordance with their terms, the terms of the material documents that support such Employee Plan and the terms of agreements between the Company and/or any of the Subsidiaries, as the case may be, and their respective employees and former employees who are members of, or beneficiaries under, the Employee Plan. No fact or circumstance exists which could adversely affect the registered status of any such material Employee Plan. Neither the Company, nor any of its agents or delegates, has breached any fiduciary obligation with respect to the administration or investment of any material Employee Plan.

(c) The Company and/or its Subsidiaries, as the case may be, have made all contributions and paid all premiums and taxes in respect of each material Employee Plan in a timely fashion in accordance with Law, the terms of each Employee Plan, and the Collective Agreements.

(d) No material Employee Plan, no administrator of any material Employee Plan, and no member of any body which administers any material Employee Plan, nor the Company nor any of its Subsidiaries, is subject to any pending investigation, examination, action, claim (including claims for income taxes, interest, penalties, fines or excise taxes) or any other proceeding initiated by any Person (other than routine claims for benefits) and, to the knowledge of the Company, there exists no state of facts which could reasonably be expected to give rise to any such investigation, examination, action, claim or other proceeding.

(e) No insurance policy or any other agreement affecting any material Employee Plan requires or permits a retroactive increase in contributions, premiums or other payments due under such insurance policy or agreement. The level of insurance reserves under each insured material Employee Plan is reasonable and sufficient to provide for all incurred but unreported claims.

(f) None of the Employee Plans (other than pension plans) and none of the Collective Agreements provide for retiree or post-termination benefits or for benefits to retired or terminated employees or to the beneficiaries or dependants of retired or terminated employees, except as required by Law.

(g) Subject to the requirements of Laws and Collective Agreements, no provision of any material Employee Plan or of any agreement, and no act or omission of the Company or its Subsidiaries, in any way limits, impairs, modifies or otherwise affects the right of the Company or its Subsidiaries to unilaterally amend or terminate any material Employee Plan, and no commitments to improve or otherwise amend any material Employee Plan have been made.

(h) No advance tax rulings been sought or received in respect of any material Employee Plan.

(i) All employee data necessary to administer each material Employee Plan in accordance with its terms and conditions and Law is in possession of the Company and, to the knowledge of the Company, such data is complete, correct, and in a form which is sufficient for the proper administration of each Employee Plan.

(j) Except as disclosed in Section 3.1(35)(j) of the Company Disclosure Letter, each Employee Plan that is a funded plan is fully funded on both a going concern pursuant to the actuarial assumptions and methodology utilized in the most recent actuarial valuation therefore and solvency basis.

(k) With respect to each material Employee Plan that is a registered pension plan: (i) all contribution holidays under and surplus withdrawals from the Employee Plan have been taken in accordance with Law; (ii) no Employee Plan that is a defined benefit pension plan has received a transfer of assets from or been merged with another registered pension plan; (iii) no Employee Plan that is a defined benefit pension plan has been subject to a partial wind-up in respect of which surplus assets relating to the partial wind-up group were not dealt with at the time of partial wind-up; (iv) no assets have been applied other than for proper payments of benefits, refunds of over-contributions and permitted payments of reasonable expenses incurred by or in respect of an Employee Plan; and (v) no conditions have been imposed by any Person and no undertakings or commitments have been given to any employee, union or any other Person concerning the use of assets relating to any Employee Plan or any related funding medium.

(l) With respect to any Employee Plan that is a multi-employer pension plan, no current or former employee, officer or director of the Company is or was ever a member of the administrative body of any such Employee Plan.

(m) No Employee Plan is a multi-employer pension plan with participants who are resident in Quebec.

(36) **Insurance.**

(a) Each of the Company and each of its Subsidiaries is, and has been continuously since January 1, 2013, insured by reputable third party insurers with reasonable and prudent policies appropriate for the size and nature of the business of the Company and its Subsidiaries and their respective assets.

(b) A true and complete list of all material insurance policies currently in effect that insure the physical properties, business, operations and assets of the Company and its Subsidiaries has been provided in the Data Room. To the knowledge of the Company each material insurance policy currently in effect that insures the physical properties, business, operations and assets of the Company and its Subsidiaries is valid and binding and in full force and effect and there is no material claim pending under any such policies as to which coverage has been questioned, denied or disputed. There is no material claim pending under any insurance policy of the Company or its Subsidiaries that has been denied, rejected, questioned or disputed by any insurer or as to which any insurer has made any reservation of rights or refused to cover all or any material portion of such claims. All material proceedings covered by any insurance policy of the Company or its Subsidiaries have been properly reported to and accepted by the applicable insurer.

(37) **Taxes.**

(a) Except as disclosed in Section 3.1(37)(a) of the Company Disclosure Letter, the Company and each of its Subsidiaries has duly and timely filed all material Tax Returns

required to be filed by them prior to the date hereof and all such material Tax Returns are complete and correct in all material respects.

(b) Except as disclosed in Section 3.1(37)(b) of the Company Disclosure Letter, the Company and each of its Subsidiaries has paid all material Taxes which are due and payable, all assessments and reassessments, and all other material Taxes due and payable by them on or before the date hereof, other than those which are being or have been contested in good faith and in respect of which reserves have been provided in the most recently published consolidated financial statements of the Company. The Company and its Subsidiaries have provided adequate accruals in accordance with GAAP in the most recently published consolidated financial statements of the Company for any Taxes of the Company and each of its Subsidiaries for the period covered by such financial statements that have not been paid whether or not shown as being due on any Tax Returns. Since such publication date, no material liability in respect of Taxes not reflected in such statements or otherwise provided for has been assessed, proposed to be assessed, incurred or accrued, other than in the ordinary course of business. None of the Company or its Subsidiaries has received a refund to which it was not entitled.

(c) Except as disclosed in Section 3.1(37)(c) of the Company Disclosure Letter, no material deficiencies, litigation, proposed adjustments or matters in controversy exist or have been asserted with respect to Taxes of the Company or any of its Subsidiaries, and neither the Company nor any of its Subsidiaries is a party to any action or proceeding for assessment or collection of Taxes and no such event has been asserted or, to the knowledge of the Company, threatened against the Company or any of its Subsidiaries or any of their respective assets.

(d) No claim has been made by any Government Entity in a jurisdiction where the Company and any of its Subsidiaries does not file Tax Returns that the Company or any of its Subsidiaries is or may be subject to Tax by that jurisdiction.

(e) There are no Liens (other than Permitted Liens) with respect to Taxes upon any of the assets of the Company or any of its Subsidiaries.

(f) The Company and each of its Subsidiaries has withheld or collected all material amounts required to be withheld or collected by it on account of Taxes and has remitted all such amounts to the appropriate Governmental Entity when required by Law to do so.

(g) Except as disclosed in Section 3.1(37)(g) of the Company Disclosure Letter, there are no outstanding agreements extending or waiving the statutory period of limitations applicable to any claim for, or the period for the collection or assessment or reassessment

of Taxes due from the Company or any of its Subsidiaries for any taxable period and no request for any such waiver or extension is currently pending.

(h) The Company and each of its Subsidiaries has made available to the Purchaser true, correct and complete copies of all Tax Returns for which the applicable statutory periods of limitations have not expired.

(i) Except as disclosed in Section 3.1(37)(i) of the Company Disclosure Letter, neither the Company nor any of its Subsidiaries has ever directly or indirectly transferred any property to or supplied any services to or acquired any property or services from a non-resident of Canada (within the meaning of the Tax Act) with whom it was not dealing at arm's length for consideration other than consideration equal to the fair market value of the property or services at the time of transfer, supply or acquisition of the property or services.

(j) There are no circumstances in which the Company or a Subsidiary could be liable under Section 160 of the Tax Act for the Taxes of another Person.

(k) The tax attributes of the assets of the Company and each of its Subsidiaries are accurately reflected, in all material respects, in the Tax Returns of the Company and each of its Subsidiaries, as applicable, and have not materially and adversely changed since the date of such Tax Returns.

(l) Except as disclosed in Section 3.1(37)(l) of the Company Disclosure Letter, there are no circumstances existing which could result in the application of Section 78 or Sections 80 to 80.04 of the Tax Act, or any equivalent provision under provincial Law, to the Company or any of its Subsidiaries.

(38) **Disclosure.** The Company has made available to the Purchaser all material information concerning the Company, its Subsidiaries and their respective businesses through SEDAR, information disclosed in the Data Room or the Company Disclosure Letter and all such information as made available to the Purchaser is accurate, true and correct in all material respects. No forecast, budget or projection provided by or on behalf of the Company to the Purchaser contains any Misrepresentation and such forecasts, budgets and projections were prepared in good faith and at the time they were prepared contained reasonable estimates of the prospects of the business of the Company and its Subsidiaries.

(39) **Confidentiality Agreements**. All agreements entered into by the Company or any of its Subsidiaries with Persons other than the Parent regarding the confidentiality of information provided to such Person or reviewed by such Persons with respect to any transaction in the nature described in the definition of Acquisition Proposal contain customary provisions, including standstill provisions, which do not provide for any waiver or release thereof other than with the consent of the Company or its Subsidiary and the Company or, if applicable, its Subsidiary has not waived, released or amended the standstill or other provisions of any such agreements. The Company or any of its Subsidiaries have not negotiated or engaged in any discussions with

respect to any such proposal with any Person who has not entered into such a confidentiality agreement.

(40) **Funds Available.** The Company has sufficient funds available to pay the Termination Fee.

**Schedule E – Representations and Warranties of the Parent and the Purchaser**

(1) **Organization and Qualification.** Each of the Parent and the Purchaser is a corporation duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all requisite power and authority to own, lease and operate its assets and properties and conduct its business as now owned and conducted.

(2) **Corporate Authorization**. Each of the Parent and the Purchaser has the requisite corporate power and authority to enter into and perform its obligations under this Agreement. The execution, delivery and performance by each of the Parent and the Purchaser of their respective obligations under this Agreement and the consummation of the Arrangement and the other transactions contemplated hereby have been duly authorized by all necessary corporate action on the part of each of the Parent and the Purchaser and no other corporate proceedings on the part of each of the Parent and the Purchaser are necessary to authorize this Agreement or the consummation of the Arrangement and the other transactions contemplated hereby**.**

(3) **Execution and Binding Obligation**. This Agreement has been duly executed and delivered by each of the Parent and the Purchaser, and constitutes a legal, valid and binding agreement of each of them enforceable against each of them in accordance with its terms subject only to any limitation under bankruptcy, insolvency or other Laws affecting the enforcement of creditors' rights generally and the discretion that a court may exercise in the granting of equitable remedies such as specific performance and injunction.

(4) **Governmental Authorization**. The execution, delivery and performance by each of the Parent and the Purchaser of their respective obligations under this Agreement and the consummation by the Parent and the Purchaser of the Arrangement and the transactions contemplated hereby do not require any Authorization or other action by or in respect of, or filing with, or notification to, any Governmental Entity by the Parent and the Purchaser other than: (i) the Interim Order and any approvals required by the Interim Order; (ii) the Final Order; (iii) filings with the Enterprise Registrar under the QBCA; (iv) in relation to the Regulatory Approvals; (v) filings with the U.S. Securities and Exchange Commission; and (vi) any Authorizations which, if not obtained, or any other actions by or in respect of, or filings with, or notifications to, any Governmental Entity which, if not taken or made, would not, individually or in the aggregate, materially impede the ability of the Parent or the Purchaser to consummate the Arrangement and the transactions contemplated hereby.

(5) **Non-Contravention.** The execution, delivery and performance by the Parent and the Purchaser of their respective obligations under this Agreement and the consummation of the Arrangement and the transactions contemplated hereby do not and will not (or would not with the giving of notice, the lapse of time or the happening of any other event or condition):

(a) contravene, conflict with, or result in any violation or breach of the organizational documents of the Parent or the Purchaser; or

(b) assuming compliance with the matters referred to in Paragraph (4) above, contravene, conflict with or result in a violation or breach of Law except as would not, individually or in the aggregate, materially impede the ability of the Parent or the Purchaser to consummate the Arrangement and the transactions contemplated hereby.

(6) **Litigation.** There are no claims, actions, suits, arbitrations, inquiries, investigations or proceedings pending, or, to the knowledge of the Parent and the Purchaser threatened, against or relating to the Parent or the Purchaser before any Governmental Entity nor are the Parent or the Purchaser subject to any outstanding judgment, order, writ, injunction or decree that, either individually or in the aggregate, is reasonably likely to prevent or materially delay consummation of the Arrangement or the transactions contemplated hereby.

(7) **Funds Available.** The Parent has, and the Purchaser will have at the Effective Time, sufficient funds available to satisfy the aggregate Consideration payable by the Purchaser pursuant to the Arrangement in accordance with the terms of this Agreement and the Plan of Arrangement, to effect the repayment at maturity of the Debentures in accordance with their terms, and to satisfy all other obligations payable by the Purchaser pursuant to this Agreement and the Arrangement.

(8) **Security Ownership.** Neither the Parent, nor any of its affiliates (including the Purchaser) or any Person acting jointly or in concert with the Parent, beneficially owns or exercises control or direction over any securities of the Company.

(9) **Ownership of the Purchaser.** The Parent is, directly or indirectly, the registered and beneficial owner of all of the outstanding securities of the Purchaser.

**Exhibit 12.1**

**Lowe's Companies, Inc.**
**Statement Re Computation of Ratio of Earnings to Fixed Charges**
In Millions, Except Ratio Data

| | Fiscal Years Ended On | | | | |
|---|---|---|---|---|---|
| | **February 3, 2012** | **February 1, 2013** | **January 31, 2014** | **January 30, 2015** | **January 29, 2016** [4] |
| **Earnings:** | | | | | |
| Earnings Before Income Taxes | $ 2,906 | $ 3,137 | $ 3,673 | $ 4,276 | $ 4,419 |
| Fixed Charges | 524 | 605 | 623 | 677 | 720 |
| Capitalized Interest [1] | — | 6 | 8 | 9 | 9 |
| Adjusted Earnings | $ 3,430 | $ 3,748 | $ 4,304 | $ 4,962 | $ 5,148 |
| | | | | | |
| **Fixed Charges:** | | | | | |
| Interest Expense [2] | 385 | 463 | 478 | 525 | 559 |
| Rental Expense [3] | 139 | 142 | 145 | 152 | 161 |
| Total Fixed Charges | $ 524 | $ 605 | $ 623 | $ 677 | $ 720 |
| | | | | | |
| Ratio of Earnings to Fixed Charges | 6.5 | 6.2 | 6.9 | 7.3 | 7.1 |

[1] *Includes the net of subtractions for interest capitalized and additions for amortization of previously-capitalized interest.*

[2] *Interest accrued on uncertain tax positions is excluded from Interest Expense in the computation of Fixed Charges.*

[3] *The portion of rental expense that is representative of the interest factor in these rentals.*

[4] *Earnings for the fiscal year ended January 29, 2016 included a $530 million non-cash impairment charge related to the investment in the Australia joint venture with Woolworths Limited. Excluding this charge from the calculation would result in a ratio of earnings to fixed charges of 7.9 for the fiscal year ended January 29, 2016.*

**Exhibit 21.1**

**LOWE'S COMPANIES, INC. AND SUBSIDIARY COMPANIES**

| NAME AND DOING BUSINESS AS: | STATE OF INCORPORATION |
|---|---|
| Lowe's Home Centers, LLC | North Carolina |

All other subsidiaries were omitted pursuant to Item 601(21)(ii) of Regulation S-K under the Securities and Exchange Act of 1934, as amended.

**Exhibit 23.1**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in:

| Description | Registration Statement Number |
|---|---|
| **Form S-3 ASR** | |
| Lowe's Stock Advantage Direct Stock Purchase Plan | 333-200115 |
| Debt Securities, Preferred Stock, Common Stock | 333-206537 |
| **Form S-8** | |
| Lowe's 401(k) Plan | 33-29772 |
| Lowe's Companies, Inc. 1994 Incentive Plan | 33-54499 |
| Lowe's Companies, Inc. 1997 Incentive Plan | 333-34631 |
| Lowe's Companies, Inc. Directors' Stock Option Plan | 333-89471 |
| Lowe's Companies Benefit Restoration Plan | 333-97811 |
| Lowe's Companies Cash Deferral Plan | 333-114435 |
| Lowe's Companies, Inc. 2006 Long Term Incentive Plan | 333-138031; 333-196513 |
| Lowe's Companies Employee Stock Purchase Plan - Stock Options for Everyone | 333-143266; 333-181950 |

of our reports dated March 28, 2016, relating to the consolidated financial statements and financial statement schedule of Lowe's Companies, Inc. and subsidiaries (the "Company"), and the effectiveness of the Company's internal control over financial reporting, appearing in this Annual Report on Form 10-K of the Company for the fiscal year ended January 29, 2016.

/s/ DELOITTE & TOUCHE LLP

Charlotte, North Carolina

March 28, 2016

**Exhibit 31.1**

**CERTIFICATION**

I, Robert A. Niblock, certify that:

(1) I have reviewed this Annual Report on Form 10-K for the fiscal year ended January 29, 2016 of Lowe's Companies, Inc. (the Registrant);

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

(4) The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

(5) The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

March 28, 2016
Date

/s/ Robert A. Niblock
Robert A. Niblock
Chairman of the Board, President and Chief Executive Officer

**Exhibit 31.2**

**CERTIFICATION**

I, Robert F. Hull, Jr., certify that:

(1) I have reviewed this Annual Report on Form 10-K for the fiscal year ended January 29, 2016 of Lowe's Companies, Inc. (the Registrant);

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

(4) The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

(c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

(5) The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

| March 28, 2016 | /s/ Robert F. Hull, Jr. |
|---|---|
| Date | Robert F. Hull, Jr.<br>Chief Financial Officer |

**Exhibit 32.1**

**Certification Pursuant to 18 U.S.C. Section 1350,**
**as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Lowe's Companies, Inc. (the Company) for the fiscal year ended January 29, 2016 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Robert A. Niblock, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert A. Niblock
Robert A. Niblock
Chairman of the Board, President and Chief Executive Officer
March 28, 2016

**Exhibit 32.2**

**Certification Pursuant to 18 U.S.C. Section 1350,**
**as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Annual Report on Form 10-K of Lowe's Companies, Inc. (the Company) for the fiscal year ended January 29, 2016 as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Robert F. Hull, Jr., certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Robert F. Hull, Jr.
Robert F. Hull, Jr.
Chief Financial Officer
March 28, 2016

**Exhibit 99.1**

**AMENDMENT NUMBER THREE TO THE**
**LOWE'S 401(k) PLAN**

This Amendment Number One to the Lowe's 401(k) Plan, as amended and restated effective as of January 1, 2013 (the "Plan"), is adopted by Lowe's Companies, Inc. (the "Company").

**W I T N E S S E T H:**

**WHEREAS,** the Company currently maintains the Plan; and

**WHEREAS**, the Company previously amended the Plan by Amendment Number Two effective as of July 18, 2015 to add provisions to permit Roth Contributions to the Plan pursuant to Internal Revenue Code Section 409A (the "Roth Amendment"); and

**WHEREAS,** the Company desires to postpone the implementation of Roth Contributions and believes the best method to accomplish that is to withdraw the provisions of Amendment Number Two pertaining to Roth Contributions prior to their becoming effective;

**NOW, THEREFORE**, the Plan is hereby amended to withdraw paragraphs 1 through 5 of the Roth Amendment such that those paragraphs will have no force or effect after the date of this Amendment Number Three. Except as expressly or by necessary implication amended hereby, the Plan shall continue in full force and effect including the provisions of paragraphs 6 and 7 of the Roth Amendment which became effective as of January 1, 2015.

**IN WITNESS HEREOF**, the Company has caused this instrument to be executed by its duly authorized officer this 16th day of June, 2015.

LOWE'S COMPANIES, INC.

By: /s/ Maureen K. Ausura

Maureen K. Ausura
Chief Human Resources Officer

**Exhibit 99.2**

**AMENDMENT NUMBER FOUR TO THE**
**LOWE'S 401(k) PLAN**

This Amendment Number Four to the Lowe's 401(k) Plan, as amended and restated effective as of January 1, 2013 (the "Plan"), is adopted by Lowe's Companies, Inc. (the "Company").

**W I T N E S S E T H:**

**WHEREAS,** the Company currently maintains the Plan; and

**WHEREAS**, the Company desires to amend the Plan to (1) permit participation by At Home Call Center Agents and (2) revise the provisions related to the payment of fees;

**NOW, THEREFORE**, the Company hereby amends the Plan effective as of January 1, 2016, as follows:

1. Section 3(a)(3) regarding the exclusion of At Home Call Center Agents is deleted in its entirety.

2. Section 7 of the Plan shall be deleted in its entirety and replaced with the following:

**Section 7**

**Expenses of the Plan and Trust**

All expenses of administering the Plan and Trust, including all reasonable expenses of the Committee, shall be paid by Lowe's to the extent not charged to Participant (including former Employee) Accounts or otherwise paid by the Plan; provided, however, that any expenses applicable to, or charged by, an investment fund shall be charged to, and paid from, that investment fund or the Accounts invested in that investment fund and shall not be charged to, or paid by, Lowe's. The payment of expenses by Lowe's shall not be deemed to be Contributions. Active and former Employee Accounts may be assessed fees to the extent permitted by ERISA and the Code.

4. Except as expressly or by necessary implication amended hereby, the Plan shall continue in full force and effect.

**IN WITNESS HEREOF**, the Company has caused this instrument to be executed by its duly authorized officer this 11th day of November, 2015.

LOWE'S COMPANIES, INC.

By: /s/ Maureen K. Ausura

Maureen K. Ausura
Chief Human Resources Officer