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 28, 2011 (our fiscal years 2010, 2009 and 2008). Each of the fiscal years presented contains 52 weeks of operating results. Unless otherwise noted, all references herein for the years 2010, 2009 and 2008 represent the fiscal years ended January 28, 2011, January 29, 2010 and January 30, 2009, 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 the consolidated financial statements and notes to the consolidated financial statements included in this annual report 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

External Factors Impacting Our Business

During 2010, the economy showed signs of recovery, but the home improvement industry continued to be challenged by high unemployment, declining home values, tighter consumer credit, modest growth in personal disposable income, and low housing turnover. Since 2008, households in the U.S. have been borrowing less and saving more as they have struggled to cope with the effects of the worst national recession in decades. Household spending increased modestly in 2010 over the prior year, but consumers continued to rationalize the scope of their housing projects, focusing on mini projects and small enhancements versus major renovations. We saw evidence of this constrained growth, as our comparable store sales increased by 1.3% versus the prior year, which was our first comparable store sales increase for the year since 2005.

Although quantitative measures of consumer sentiment and confidence are up from their low points during the depths of the recession, they remain below their historical means. According to our fourth quarter consumer survey, fewer homeowners feel the economy will get worse before it gets better. However, the number of homeowners who indicated they feel the recession is not over remains high, and approximately 45% of those homeowners told us that they do not anticipate changing their spending plans in 2011. Consumers are increasingly concerned about inflation as the prices of raw materials, oil and foreign manufacturing wages continue to increase.

Despite the economic uncertainty, we are prepared to operate effectively in this slow growth environment. We are committed to growing market share 1% – 2% faster than the overall home improvement market by adapting to changes in customer expectations and through increased penetration of our existing customer base. By providing customers with alternative methods to engage with us and through enhancements in product assortments and pricing, our plan is to deliver customers a better experience and better solutions to meet their needs to drive profitable sales. Although at a slower pace, we also continue to see growth opportunities through future store expansion in under-penetrated urban markets in the U.S. and in western Canada. In addition, we have implemented changes that set the foundation for longer-term improvements in efficiency and cost control.

Business Strategies

Driving profitable sales

In our research, customers have said they expect more from a home improvement company and want home improvement companies to be more relevant to their lifestyles. They desire a simplified approach to home improvement and expect us to provide them with products and services that meet their desire for ease, intuitiveness and convenience all in one solution. By engaging customers whenever, wherever and however they wish to engage, our goal is to increase profitable sales by doing a better job of closing every transaction. This means meeting our customers’ expectations in our stores through better customer service, at the customer’s home or job site through the Project Specialist Exterior (PSE) or District Commercial Account Specialist (DCAS) programs, and online through a more personalized Lowes.com experience.

During 2010, we experienced positive results from the addition of the PSE and DCAS programs, which are designed to better meet the needs of our customers by simplifying the process and allowing them to complete transactions where it is most convenient. Initially launched in 2009, the PSE program helped to increase our 2010 comparable store installed sales by over 10%. Likewise, the DCAS program also helped to drive our Commercial Business Customer comparable store sales above the company average for the year.

Customer service continues to be a primary focus for driving profitable sales and market share gains. In an effort to enhance the customer experience and drive greater ticket profitability we are focused on increasing customer-facing hours in our stores. Late in 2010, we announced plans to implement weekend teams to the existing store structure to put more sales employees on the floor during peak days. These weekend teams are in addition to our normal seasonal hires and are an addition to our base staffing model. To further enhance the customer experience, we also revamped our store employee training to focus on consultative skills, which will help them to identify the customers’ needs in order to help them find the right solutions.

As our business evolves, we continue to look for opportunities to leverage emerging technologies and online trends to build stronger relationships with consumers. At the end of 2010, we introduced the mobile version of Lowes.com to give customers the ability to continue their shopping experience regardless of their location. During the first month of the launch we experienced over one million visits to the site. Scheduled for the first half of 2011, we will also launch our first mobile application as well as MyLowe’s, an innovative online tool that aims to simplify the home improvement process by helping customers manage their homes and home improvement projects more effectively. By providing customers with cross-channel access
to new content, online communities, project planning and product subscriptions, we expect to increase our involvement in their home improvement experiences, which will lead to increased sales.

To further meet our customers’ desire for a simplified and seamless experience, we launched our repair service program in the second half of 2010 to provide after-sale service on major appliances. By having greater control over this service, we expect more positive customer experiences, which will help drive incremental repeat business and additional purchases across the store. We also expect to realize cost savings through lower appliance return rates and identification of quality concerns that we can work with our vendors to resolve.

**Improving efficiency and controlling costs**

During 2010, we implemented additional programs in our operations, supply chain and customer support centers to increase operational efficiency and control costs. Late in 2010, we modified a portion of our mid-level store management structure from a tiered structure into a single-level Assistant Store Manager position. On average, this change resulted in a reduction of one management position per store. Although the primary purpose of this change was to make our store management structure more effective by fully empowering our Assistant Store Managers to drive the business, the net savings from these changes will also largely offset the cost of 2011 wage increases.

To further drive operational efficiency and profitable sales, we are focused on providing the right products in the right markets at the right price. During 2010, we implemented two important changes to our pricing strategy. First, we increased our number of competitive pricing zones, from under 90 to more than 210, allowing us to price products more competitively in each market. Second, we implemented Base Price Optimization, which determines the best price, by item and competitive pricing zone, to improve price perception and profitability. These initiatives helped to drive margin increases of approximately 25 basis points for the third and fourth fiscal quarters of 2010 as compared to the same quarters in 2009.

In 2011, we will also begin implementing Integrated Planning and Execution (IP&E), which will help us more specifically determine what products and quantities to offer in each store based on market demographics, customer requirements, customer shopping preferences and local store employee knowledge. We expect this initiative to enable us to better align with customer demand while managing our inventory levels.

Over the past six years, we have also refined our supply chain, which resulted in increased trailer utilization, an elimination of over 550 million road miles on a comparable volume basis and a high number of mode conversions from truckload to intermodal routings. These combined results resulted in savings of over 100 million gallons of diesel fuel and overall savings of approximately $490 million over the six-year period.

To better leverage our existing resources and capabilities at our customer support centers, during 2010 we significantly reduced the use of third-party information technology (IT) service technicians to make onsite repairs in our stores by leveraging existing IT support teams to manage the process. By shipping replacement parts to stores and repairing returned defective units in our technology service center we expect ongoing savings of approximately $14 million per year.

We are focused on making the promise of a better, simpler customer experience a reality. We know there are opportunities to grow our business through deeper customer relationships. We will continue to focus on driving profitable sales, market share growth and controlling costs while recommitting to our vision to deliver customer-valued solutions that make Lowe’s the first choice in home improvement.

**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.

![Table](image-url)
Comparable store sales for our seasonal living category also outperformed the company average for 2010. The increase was driven by improved sell-through of grills and grill accessories, patio furniture and holiday assortments, as well as increased sales of room air conditioners as a result of prolonged extreme heat across the U.S. in the middle of the year.

Gross margin
Gross margin of 35.14% for 2010 represented a 28 basis point increase over 2009. The increase was driven by improvements in margin rates, primarily in seasonal living, lumber and hardware which resulted in 38 basis points of improvement. The rate increase is primarily attributable to better sell-through of seasonal inventory this year relative to 2009, our increased number of competitive pricing zones, and our Base Price Optimization strategy. The rate improvement was partially offset by a 17 basis point unfavorable impact from the mix of products sold across categories, driven by increased sales in appliances.

SG&A
The decrease in SG&A as a percentage of sales from 2009 to 2010 was primarily driven by leverage of 23 basis points in bonus expense, due to lower attainment levels relative to plan. Impairment and discontinued project expense leveraged 13 basis points due to lower charges associated with exiting stores as well as fewer construction projects discontinued in the current year. We also experienced nine basis points of leverage associated with our proprietary credit programs due to decreased program costs for the year. This was partially offset by de-leverage in store payroll due to the impact of the new Facilities Service Associate (FSA) position and wage growth, fleet expense due to increased deliveries related to free delivery promotions and increased average fuel costs, and bank card expense due to increased bank card transaction volume and higher transaction fees.

Depreciation
Depreciation expense decreased slightly for 2010 compared to 2009 due to a lower asset base resulting from decreased capital spending and assets becoming fully depreciated in 2010. Property, less accumulated depreciation, decreased to $22.1 billion at January 28, 2011 compared to $22.5 billion at January 29, 2010. At January 28, 2011 and January 29, 2010, we owned 89% and 88% of our stores, respectively, which included stores on leased land.

Interest
Net interest expense is comprised of the following:

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense, net of amount capitalized</td>
<td>$340</td>
<td>$300</td>
</tr>
<tr>
<td>Amortization of original issue discount and loan costs</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Interest income</td>
<td>(12)</td>
<td>(17)</td>
</tr>
<tr>
<td><strong>Interest – net</strong></td>
<td>$332</td>
<td>$287</td>
</tr>
</tbody>
</table>

Net interest expense increased primarily as a result of the issuance of $2.0 billion of notes during 2010 and the comparison to the impact of tax settlements that favorably impacted our tax-related interest accruals in 2009, offset by the repayment of $500 million of notes during the year.
Income tax provision
Our effective income tax rate was 37.7% in 2010 versus 36.9% in 2009. The lower effective tax rate in 2009 was primarily due to certain prior year favorable state tax settlements, which decreased the effective tax rate by approximately 70 basis points.

Fiscal 2009 Compared to Fiscal 2008

Net sales
Reflective of the continued challenging sales environment, net sales decreased 2.1% to $47.2 billion in 2009. Comparable store sales declined 6.7% in 2009 compared to a decline of 7.2% in 2008. Total customer transactions increased 3.4% compared to 2008, driven by our store expansion program. However, average ticket value decreased 5.4% to $61.66, primarily as a result of fewer project sales. Comparable store customer transactions declined 1.0%, and comparable store average ticket declined 5.7% compared to 2008.

Customers continued to focus on routine maintenance and repairs instead of larger discretionary projects during fiscal 2009. We experienced solid sales performance in paint and nursery as a result of the continued willingness of homeowners to take on smaller do-it-yourself projects to maintain their homes and improve their outdoor space. The paint category had positive comparable store sales performance for each quarter during 2009. Appliances also performed better than our average comparable store sales change, driven by attractive value and customers’ willingness to invest in products that increase energy efficiency. However, certain of our other categories, including home fashion, cabinets & countertops and millwork, which are more discretionary in nature, experienced double-digit declines in comparable store sales for the year. We also experienced continued weakness in other categories, including rough electrical, lumber and outdoor power equipment, which also experienced double-digit declines in comparable store sales driven by comparisons to hurricane-related spending in 2008.

Due to consumers’ continued hesitancy to take on larger discretionary projects, we experienced higher than average declines within all specialty sales categories during 2009. Special Order Sales had a 15.8% decline in comparable store sales, due to weakness in cabinets & countertops, home fashion, lighting and millwork. Comparable store Installed Sales declined 11.4% for 2009. However, both Special Order Sales and Installed Sales experienced sequential improvement in the third quarter of 2009, and positive comparable store sales in the fourth quarter of 2009, as the economic pressures lessened. Sales to Commercial Business Customers declined 9.1% in 2009, driven by continued project delays within the remodel and repair businesses.

From a geographic market perspective, we experienced continued pressure from the declining housing market, with the most pronounced declines in the Mid-Atlantic and Florida markets for the year. Many areas were impacted by several years of housing pressure as well as the financial markets. However, we saw evidence of broad-based stabilization, as we experienced sequential improvement in comparable store sales for all 50 states from the third to the fourth quarter, and 26 states had positive comparable results in the fourth quarter. For 2009, the northeast and north-central markets performed above the Company average, and for the fourth quarter of 2009 these areas delivered positive comparable store sales results. As a result, we experienced a comparable store sales decline of 1.6% for the fourth quarter, compared to a decline of 6.7% for the year.

Gross margin
For 2009, gross margin of 34.86% represented a 65 basis point increase from 2008. Margin rate improvement contributed approximately 52 basis points of this increase, primarily driven by a moderating promotional environment and decreased seasonal markdowns. The seasonal living category experienced strong margin increases compared to the prior year driven by reduced markdowns as a result of rationalizing purchase levels earlier in the year. The flooring and lighting product categories also experienced strong improvement compared to the prior year driven by the more rational promotional environment and our decision to not repeat certain prior year promotions. In addition, margin was positively impacted by lower inventory shrink, which provided 12 basis points of leverage.

SG&A
The increase in SG&A as a percentage of sales from 2008 to 2009 was primarily driven by de-leverage of 61 basis points in store payroll. As sales per store declined, an increased number of stores met the base staffing hours threshold, which increased the proportion of fixed-to-total payroll. We also experienced de-leverage of approximately 40 basis points in bonus expense attributable to higher achievement against performance targets in 2009. As a result of 2009 performance and continued expansion rationalization, we experienced 20 basis points of de-leverage associated with the write-off of new store projects that we are no longer pursuing and long-lived asset impairment charges. Employee insurance costs also de-leveraged 18 basis points as a result of rising health care expenses, higher enrollment and higher administrative costs.

In 2009, credit programs de-leveraged 16 basis points due to increases in aged losses and bankruptcies as a result of higher unemployment and credit market tightening. Additionally, we experienced de-leverage of approximately 16 basis points in fixed expenses such as property taxes, utilities and rent during 2009 as a result of sales declines. These changes were offset slightly by leverage of 11 basis points related to store opening costs associated with the opening of fewer stores in 2009 than in 2008.

Depreciation
Depreciation de-leveraged 23 basis points as a percentage of sales in 2009. This de-leverage was driven by the comparable store sales declines and the addition of 62 new stores in 2009. Property, less accumulated depreciation, decreased to $22.5 billion at January 29, 2010, compared to $22.7 billion at January 30, 2009. At January 29, 2010, and January 30, 2009, we owned 88% of our stores, which included stores on leased land.

Interest
Net interest expense is comprised of the following:

<table>
<thead>
<tr>
<th>(in millions)</th>
<th>2009</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest expense, net of amount capitalized</td>
<td>$300</td>
<td>$314</td>
</tr>
<tr>
<td>Amortization of original issue discount and loan costs</td>
<td>4</td>
<td>6</td>
</tr>
<tr>
<td>Interest income</td>
<td>(17)</td>
<td>(40)</td>
</tr>
<tr>
<td>Interest -- net</td>
<td>$287</td>
<td>$280</td>
</tr>
</tbody>
</table>

Net interest expense increased primarily as a result of lower interest income due to lower interest rates and lower capitalized interest associated with fewer stores under construction, partially offset by lower interest associated with favorable tax settlements during 2009.
Income tax provision
Our effective income tax rate was 36.9% in 2009 versus 37.4% in 2008. The decrease in the effective tax rate was primarily due to favorable state tax settlements.

LOWE’S BUSINESS OUTLOOK
As of February 23, 2011, the date of our fourth quarter 2010 earnings release, we expected total sales in 2011 to increase approximately 5%, which includes the 53rd week. The 53rd week was expected to increase total sales by approximately 1.6%. We expected comparable store sales to increase 1% to 2% in 2011. We expected to open 25 to 30 stores during 2011, resulting in total square footage growth of approximately 1.5%. Earnings before interest and taxes as a percentage of sales (operating margin) was expected to increase approximately 30 basis points. In addition, depreciation expense was expected to be approximately $1.48 billion. Diluted earnings per share of $1.60 to $1.72 were expected for the fiscal year ending February 3, 2012. Our guidance assumed approximately $2.4 billion in share repurchases during 2011 spread evenly across the four quarters.

FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

Cash Flows
Cash flows from operating activities continued to provide the primary source of our liquidity. The decrease in net cash provided by operating activities for 2010 versus 2009 was driven by changes in working capital, primarily related to accounts payable and income tax payments. The increase in net cash used in investing activities for 2010 versus 2009 was driven by increased purchases of investments, partially offset by a decline in property acquired due to a reduction in our store expansion program. The decrease in net cash used in financing activities for 2010 versus 2009 was attributable to an increase in cash from the issuances of long-term debt in 2010 and lower debt repayments, offset by share repurchases.

Sources of Liquidity
In addition to our cash flows from operations, liquidity is provided by our short-term borrowing facilities and through the issuance of long-term debt. We have a $1.75 billion senior credit facility that expires in June 2012. The senior credit facility supports our commercial paper program. The senior credit facility has a $500 million letter of credit sublimit. Letters of credit issued pursuant to the senior credit facility reduce the amount available for borrowing under the senior credit facility. Borrowings made are unsecured and are priced at fixed rates based upon market conditions at the time of funding in accordance with the terms of the senior credit facility. The senior credit facility contains certain restrictive covenants, which include maintenance of a debt leverage ratio, as defined by the senior credit facility. We were in compliance with those covenants at January 28, 2011. Seventeen banking institutions are participating in the senior credit facility. There were no outstanding borrowings or letters of credit under the senior credit facility and no outstanding borrowings under the commercial paper program at January 28, 2011 or during 2010.
We also have a Canadian dollar (C$) denominated credit facility in the amount of C$50 million that provides revolving credit support for our Canadian operations. This uncommitted credit facility provides us with the ability to make unsecured borrowings, which are priced at fixed rates based upon market conditions at the time of funding in accordance with the terms of the credit facility. As of January 28, 2011, there were no borrowings outstanding under this credit facility.
We expect to continue to have access to the capital markets on both short- 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, 2011, 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.

<table>
<thead>
<tr>
<th>Debt Ratings</th>
<th>S&amp;P</th>
<th>Moody’s</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial Paper</td>
<td>A1</td>
<td>P1</td>
</tr>
<tr>
<td>Senior Debt</td>
<td>A</td>
<td>A</td>
</tr>
<tr>
<td>Outlook</td>
<td>Stable</td>
<td>Stable</td>
</tr>
</tbody>
</table>

We believe that net cash provided by operating and financing activities will be adequate for our expansion plans and our other operating requirements 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 have a significant amount of cash held in foreign affiliates.

Cash Requirements

Capital expenditures
Our fiscal 2011 capital budget is approximately $1.8 billion, inclusive of approximately $100 million of lease commitments, resulting in a planned net cash outflow of $1.7 billion. Approximately 45% of the planned net cash outflow is for store expansion. Our expansion plans for 2011 consist of 25 to 30 new stores and are expected to increase sales floor square footage by approximately 1.5%. All of the 2011 projects are expected to be owned, which includes approximately 20% of the stores on leased land. In addition, approximately 30% of the planned net cash outflow is for investment in our existing stores. Other planned capital expenditures include investing in our distribution and corporate infrastructure, including enhancements in information technology.

During 2009, we entered into a joint venture agreement with Australian retailer Woolworths Limited, to develop a chain of home improvement stores in Australia. We expect to contribute approximately $400 million over four years to the joint venture, of which we are a one-third owner. As of January 28, 2011, we had contributed approximately $140 million. The joint venture expects to open its first stores in 2011.

Debt and capital
In April 2010, we issued $1.0 billion of unsecured notes in two tranches: $500 million of 4.625% notes maturing in April 2020 and $500 million of 5.8% notes maturing in April 2040. Net proceeds from the 4.625% and 5.8% notes, excluding issuance costs, were $497 million and $495 million, respectively. During the second quarter of 2010, we
used a portion of the net proceeds from these notes to repay our $500 million 8.25% notes due June 1, 2010. In November 2010, we issued $1.0 billion of unsecured notes, in two tranches: $475 million of 2.125% notes maturing in April 2016 and $525 million of 3.75% notes maturing in April 2021. Net proceeds from the 2.125% and 3.75% notes, excluding issuance costs, were $473 million and $522 million, respectively. Interest on the 2010 notes is payable semiannually in arrears in April and October of each year until maturity. Net proceeds were available for general corporate purposes, including capital expenditures and working capital needs, and to fund repurchases of our common stock.

Dividends declared during fiscal 2010 totaled $588 million. In the fourth quarter of 2009 the dividend payment dates were shifted such that dividends are paid in the subsequent quarter to their declaration. Dividends declared in the fourth quarter of 2010 were paid in fiscal 2011 and totaled $148 million.

We have a share repurchase program that is executed through transactions made from time to time in the open market or through private transactions. Shares purchased through the repurchase program are retired and returned to authorized and unissued status. As of January 28, 2011, we had a remaining repurchase authorization of $2.4 billion with no expiration date. We expect to utilize the remaining authorization by the end of fiscal 2011.

The ratio of debt to equity plus debt was 26.6% and 21.0% as of January 28, 2011, and January 29, 2010, 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 material, current or future 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 and commercial commitments:

<table>
<thead>
<tr>
<th>January 28, 2011</th>
<th>Payments Due by Period</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total</td>
<td>Less Than 1 Year</td>
</tr>
<tr>
<td>Long-term debt (principal and interest amounts, excluding discount)</td>
<td>$11,517</td>
<td>$332</td>
</tr>
<tr>
<td>Capitalized lease obligations</td>
<td>626</td>
<td>68</td>
</tr>
<tr>
<td>Operating leases</td>
<td>6,008</td>
<td>418</td>
</tr>
<tr>
<td>Purchase obligations</td>
<td>633</td>
<td>386</td>
</tr>
<tr>
<td>Total contractual obligations</td>
<td>$18,784</td>
<td>$1,204</td>
</tr>
</tbody>
</table>

At January 28, 2011, our reserve for uncertain tax positions (including penalties and interest), net of amounts held on deposit by taxing authorities, was $123 million, of which $80 million was classified as a current liability and $43 million was classified as a non-current liability. At this time, we are unable to make a reasonably reliable estimate of the timing of payments in individual years beyond 12 months due to uncertainties in the timing of the effective settlement of tax positions.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of the consolidated financial statements and notes to consolidated financial statements presented in this annual report 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 2010, our reserve decreased approximately $10 million to $39 million as of January 28, 2011.

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 2010, the inventory shrinkage reserve decreased approximately $11 million to $127 million as of January 28, 2011.

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, which generally do not represent the reimbursement of specific, incremental and identifiable costs that we incurred to sell the vendor’s product. 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.

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 non-productive inventory and assumptions about net realizable value.

Letters of credit are issued primarily for real estate and construction contracts.
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 the amount of products considered obsolete and therefore included in the calculation of our obsolete inventory reserve would have affected net earnings by approximately $2 million for 2010. A 10% change in the estimated shrinkage rate included in the calculation of our inventory shrinkage reserve would have affected net earnings by approximately $8 million for 2010.

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.

**Long-Lived Asset Impairment – Operating Stores**

**Description**

At January 28, 2011, $19.0 billion of our long-lived assets were associated with stores currently in operation. We review the carrying amounts of operating stores whenever certain events or changes in circumstances indicate that the carrying amounts may not be recoverable. When evaluating operating stores for impairment, our asset group is at an individual store level, as that is the lowest level for which cash flows are identifiable. Cash flows for individual operating stores do not include an allocation of corporate overhead.

We evaluate operating stores for triggering events relating to long-lived asset impairment on a quarterly basis to determine when store assets may not be recoverable. Our primary indicator that operating store assets may not be recoverable is consistently negative cash flow for a 12-month period for those stores 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 stores for impairment, including individual stores’ execution of their operating plans and local market conditions, including incursion, which is the opening of either other Lowe’s stores or direct competitors’ stores within the same market.

For operating stores, a potential impairment has occurred if projected future undiscounted cash flows expected to result from the use and eventual disposition of the store assets are less than the carrying amount of the assets. When determining the stream of projected future cash flows associated with an individual operating store, 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.

An impairment loss is recognized when the carrying amount of the operating store is not recoverable and exceeds its fair value. We generally use an income approach to determine the fair value of our individual operating stores, which requires discounting projected future cash flows. This involves making assumptions regarding both a store’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 store footprint similar in size to ours.

During 2010, 15 stores experienced a triggering event and were evaluated for recoverability. Four of these stores were determined to be impaired. We recorded operating store impairment losses of $36 million during 2010 compared to $53 million during 2009.

**Judgments and uncertainties involved in the estimate**

Our impairment loss calculations require us to apply judgment in estimating expected future cash flows, including estimated sales, margin and controllable expenses, and assumptions about market performance. We also apply judgment in estimating asset fair values, including the selection of an appropriate discount rate.

**Effect if actual results differ from assumptions**

We have not made any material changes in the methodology used to estimate the future cash flows of operating stores during the past three fiscal years. If the actual results of our operating stores are not consistent with the assumptions and judgments we have made in estimating future cash flows and determining asset fair values, our actual impairment losses could vary positively or negatively from our estimated impairment losses.

Eleven of the stores that experienced a triggering event during 2010 were determined to be recoverable and therefore were not impaired. For ten of these stores the expected undiscounted cash flows substantially exceeded the net book value of the store assets. For these ten stores, a 10% reduction in projected sales used to estimate future cash flows at the latest date that the operating stores were evaluated for impairment would have resulted in the impairment of certain of these stores and increased recognized impairment losses by $39 million.

One of the stores with a net book value of $21 million had expected undiscounted cash flows that exceeded the net book value of its assets by less than a substantial amount. A 10% reduction in projected sales used to estimate future cash flows at the date this store was evaluated for impairment would have increased recognized impairment losses by $15 million.

We analyzed other assumptions made in estimating the future cash flows of the operating stores evaluated for impairment, but the sensitivity of those assumptions was not significant to the estimates.

**Self-Insurance**

**Description**

We are self-insured for certain losses relating to workers’ compensation; automobile; property; general and product liability; extended protection...
plan; and certain 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 2010, our self-insurance liability increased approximately $43 million to $835 million as of January 28, 2011.

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 $52 million for 2010. A 100 basis point change in our discount rate would have affected net earnings by approximately $17 million for 2010.

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 increased $82 million to $631 million as of January 28, 2011.

We defer 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. 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 2010, deferred revenues associated with these transactions increased $17 million to $371 million as of January 28, 2011.

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 2010 under these contracts would have affected net earnings by approximately $11 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 $6 million in 2010.

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 we have not material debt. Therefore, providing quantitative information about interest rate risk is not meaningful for 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 mitigated by our selling prices and through fixed-price supply agreements with vendors. 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.
DISCLOSURE REGARDING FORWARD-LOOKING STATEMENTS

We speak throughout this Annual Report to Lowe’s Shareholders in forward-looking statements about our future, particularly in the “Letter to Shareholders” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” The words “believe,” “expect,” “will,” “should,” 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 because, for example:

• Our sales are dependent upon the health and stability of the general economy, which is still recovering slowly from a prolonged period of recession that was made worse by a severe accompanying financial/credit crisis. Sustained high rates of unemployment, the psychological effect of falling home prices, consumer deleveraging and reduced access to credit, through mortgage financing and otherwise, and reduced consumer confidence are continuing to constrain consumer spending, particularly on many of the discretionary, bigger-ticket products we sell.

• Sales in many of our product categories are driven by the activity level of home improvement projects. Adverse changes in economic factors specific to the home improvement industry may negatively affect the rate of growth of our total sales and comparable store sales.

• Our sales, particularly of seasonal merchandise, may be impacted by unseasonable weather.

• Changes in existing or new laws and regulations that affect employment/labor, trade, product safety, transportation/logistics, energy costs, health care, tax or environmental issues could have an adverse impact, directly or indirectly, on our financial condition and results of operations.

• Our business is highly competitive, and our many competitors could take sales and market share from us if we fail to effectively execute our merchandising, marketing and distribution strategies.

• The success of our strategic business initiatives designed to increase our sales and capture a greater percentage of our customers’ expenditures on home improvement projects is dependent in varying degrees on the timely delivery and functionality of information technology systems to support them.

• We may not be able to realize the full benefits of some of our strategic business initiatives if our employees or third-party installers and repair technicians are unable to accept and embrace changes in our business model.

• The failure to effectively manage our relationships with suppliers of brand name products that are popular with our customers could negatively impact our business plan and financial results.

• Expanding internationally presents unique challenges that will require us to continue to adapt our store operations, merchandising and distribution functions and to work effectively with our joint venture partner in Australia.

• The failure to properly maintain our critical information systems or a serious disruption of those systems could negatively impact our financial performance. Performance issues with new customer-facing technology systems could negatively affect our strategic business initiatives that are dependent on those systems.

• Our sales are impacted by our ability to secure and retain a highly qualified and adaptable workforce with expanded skill sets who can work effectively and collaboratively in an increasingly culturally diverse environment which is an important element of our future growth strategy.

• The failure of a key vendor or service provider that we cannot quickly replace could disrupt our operations and negatively impact our business.

• The ability to continue our everyday, low pricing strategy and provide the products that customers want depends on our vendors providing a reliable supply of products at competitive prices and our ability to effectively manage our inventory. If the domestic or international supply chain for our products is disrupted, our sales and gross margin would be adversely impacted.

• Product and service quality issues could negatively affect customer confidence in Lowe’s and the Company’s brand image and, in some instances, also result in product recalls and potential product liability and product warranty claims.

For more information about these and other risks and uncertainties that we are exposed to, you should read the “Risk Factors” included in our Annual Report on Form 10-K to the United States Securities and Exchange Commission. All forward-looking statements in this Annual Report to Lowe’s shareholders 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 in our 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.