



2011

MANAGEMENT'S DISCUSSION AND
ANALYSIS AND CONSOLIDATED
FINANCIAL STATEMENTS

REAL-TIME REPORT

A REAL-TIME OVERVIEW OF RONA'S EVOLUTION
IN 2012, THE TRADITIONAL PRINT VERSION OF
RONA'S ANNUAL REPORT WILL BE REPLACED
WITH A DYNAMIC, INTERACTIVE DIGITAL
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All information previously contained in the printed Annual Report is now available in an interactive format at **realtimereport.rona.ca**. You can watch **video messages from the Management Team** and read articles on a variety of RONA topics such as our **financial results**, our **latest environmental initiatives** and **the Corporation's strategic orientation for the coming years**.

The decision to go digital is inspired by our commitment to get closer to RONA stakeholders and is one that fits within the **framework of our new paper use policy**, which is also available for viewing at **realtimereport.rona.ca**



We invite you to use this interactive tool at your convenience—it's an exciting new way to get closer to one another.

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MANAGEMENT'S DISCUSSION AND ANALYSIS 2011

FOR THE FISCAL YEAR ENDED DECEMBER 25, 2011

RONA inc. ("RONA" or the "Corporation") is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. The Corporation operates a network of close to 800 corporate, franchise and affiliate stores of various sizes and formats under several banners, and a network of 17 hardware and construction materials distribution centres which are flexible and perfectly adapted to the diverse needs of its clientele. RONA is also a leader in the specialized plumbing and HVAC market, primarily serving commercial and professional customers with a network of close to 60 sales outlets across the country.

In total, RONA supplies nearly 1,500 sales outlets, of which some 860 are under one of its banners, as well as more than 600 clients, independent dealers, in its distribution network. With more than 30,000 employees working under its family of banners in every region of Canada, the RONA store network generates consolidated sales of \$4.8 billion and over \$6 billion taking into account the total impact of the retail sales of franchise dealers, affiliates and other independent dealers who buy their supplies at RONA. For more information, please visit rona.ca.

RONA's sales include:

- Retail sales generated by its retail corporate stores
- Royalties on franchise retail sales
- A share of retail sales generated by franchise stores in which RONA holds an interest
- Wholesale sales generated by franchise stores (net of RONA's share in these stores)
- Wholesale sales generated by affiliate dealer-owned stores

FINANCIAL STATEMENTS

This *Management's Discussion and Analysis* (MD&A) should be read in conjunction with the Corporation's audited consolidated financial statements and related notes for the fiscal year ended December 25, 2011. These consolidated financial statements for the year ended December 25, 2011 were prepared in accordance with International Financial Reporting Standards ("IFRS") and are the Corporation's first annual consolidated financial statements under IFRS, therefore, IFRS 1, *First-time Adoption of International Financial Reporting Standards*, was applied. The monetary amounts in these financial statements are expressed in Canadian dollars, unless otherwise indicated. RONA has filed these consolidated financial statements with the Canadian Securities Administrators and they can be viewed online at www.sedar.com or on RONA's website at www.rona.ca.

NON-GAAP PERFORMANCE MEASURES

In this report, as in its internal management, RONA uses the concept of "earnings before interest, taxes, depreciation, amortization and non-controlling interests" (EBITDA). RONA also uses the concept of "adjusted gross margin," which corresponds to revenues less the cost of goods sold, plus adjustments for network support.

While EBITDA does not have a definition that is standardized by IFRS, it is widely used in our industry and in financial circles to measure the profitability of operations, excluding tax considerations and the cost and use of capital. Adjusted gross margin is used by RONA's management to analyze the profitability of our network, after adjustments for network support. Given that these measures are not standardized, EBITDA and adjusted gross margin cannot be compared from one company to the next. Still, we establish them in the same way for each of the segments identified, and, unless expressly mentioned, our method does not change over time. EBITDA and adjusted gross margin must not be considered separately or as a substitute for other performance measures calculated according to IFRS, but rather as additional information.

The following table presents a reconciliation of these two measures to IFRS:

Reconciliation of non-GAAP measures

(Unaudited, in thousands of dollars, except for margins in %)	Fiscal years ended			
	December 25, 2011	December 26 2010	\$ change from 2010	% change from 2010
Revenues	4,804,584	4,819,589	(15,005)	(0.3%)
Cost of sales	(3,455,301)	(3,447,768)	(7,533)	(0.2%)
Gross profit	1,349,283	1,371,821	(22,538)	(1.6%)
Gross margin (gross profit/revenues)	28.08%	28.46%	-	-38 p.b.
Adjustments for network support ⁽¹⁾	102,668	109,050	(6,382)	(5.9%)
Adjusted gross profit	1,451,951	1,480,871	(28,920)	(2.0%)
Adjusted gross margin (adjusted gross profit/revenues)	30.22%	30.73%	-	-51 p.b.
Adjusted gross profit (excluding unusual items)	1,470,616	1,480,871	(10,255)	(0.7%)
Adjusted gross margin (adjusted gross profit/revenues) (excluding unusual items)	30.61%	30.73%	-	-12 p.b.
Adjusted selling, general and administrative expenses	(1,211,396)	(1,144,553)	(66,843)	(5.8%)
Adjusted selling, general and administrative expenses (excluding unusual items)	(1,201,399)	(1,144,553)	(56,846)	(5.0%)
Rent	159,741	147,006	12,735	8.7%
EBITDA before rent	400,296	483,324	(83,028)	(17.2%)
EBITDA before rent (excluding unusual items)	428,958	483,324	(54,366)	(11.2%)
EBITDA margin before rent (EBITDA before rent/revenues)	8.33%	10.03%	-	-170 p.b.
EBITDA margin before rent (EBITDA before rent/revenues, excluding unusual items)	8.93%	10.03%	-	-110 p.b.
EBITDA	240,555	336,318	(95,763)	(28.5%)
EBITDA (excluding unusual items)	269,217	336,318	(67,101)	(20.0%)
EBITDA margin (EBITDA/revenues)	5.01%	6.98%	-	-197 p.b.
EBITDA margin (EBITDA/revenues, excluding unusual items)	5.60%	6.98%	-	-138 p.b.
Finance income	(5,262)	(4,394)	(868)	(19.8%)
Goodwill impairment	(117,000)	-	(117,000)	-
Amortization, depreciation and impairment of non-financial assets	(149,736)	(108,718)	(41,018)	(37.7%)
Amortization, depreciation and impairment of non-financial assets (excluding unusual items)	(107,055)	(108,718)	1,663	1.5%
Operating profit	(31,443)	223,206	(254,649)	(114.1%)
Operating profit (excluding unusual items)	156,900	223,206	(66,306)	(29.7%)

⁽¹⁾ Corresponds to other costs incurred in bringing the inventory to its present location and condition.

FISCAL YEAR

RONA's fiscal year ends on the last Sunday of each year and usually has 52 weeks. For interim disclosure purposes, quarters end on the last Sunday of March, June, September and December respectively, and have 13 weeks. The fiscal years ended December 27, 2009, December 26, 2010 and December 25, 2011, include 52 weeks of operations.

HIGHLIGHTS OF THE LAST THREE YEARS

SELECTED ANNUAL INFORMATION

(in millions of dollars, except number of shares and earnings per share)	Fiscal year ended		
	December 25, 2011	December 26, 2010	December 27, 2009*
Sales	4,804.6	4,819.6	4,677.4
Net earnings (loss) attributable to participating shares	(86.4)	137.4	138.3
Per share, diluted	(0.66)	1.05	1.11
Net earnings (loss) attributable to participating shares (excluding unusual items)	86.9	137.4	147.8
Per share, diluted (excluding unusual items)	0.66	1.05	1.19
Total assets	2,780.4	2,921.6	2,749.9
Long-term debt	252.3	465.5	440.5
Number of common shares outstanding at year end	127,200,189	130,071,782	129,653,383

* The selected information that is presented for the year ended 2009 does not reflect the impact of the adoption of IFRS.

At the beginning of 2008, the Corporation launched its 2008–2011 strategic plan, with the first phase focused on improving profitability, efficiency and productivity: the PEP program. Over the last three years, RONA has embraced a strict management policy, resulting in a significant improvement in its operational efficiency, and has also managed its balance sheet very carefully during this period, slowing the pace of store openings and acquisitions, concentrating more on recruiting independent dealer-owners, and developing its existing store network.

At year-end 2007 and the beginning of 2008, the level of activity in the western part of the country began to decline, especially in Alberta, where a large inventory of unsold homes had accumulated. In Quebec the situation stabilized, while in Ontario economic deterioration continued and accelerated in the third quarter as the financial

crisis deepened. The automotive industry was severely affected in this region. In the Atlantic Provinces, Saskatchewan and Manitoba, 2008 was a good year, but these provinces represent only a small percentage of economic activity in Canada. Given all these factors, RONA's same-store sales declined by 4.6%. In general, the performance of stores in Alberta, British Columbia and Ontario were affected, while the stores in Quebec, the Prairies and Atlantic Provinces performed better than in the previous year. The numerous measures that RONA implemented in 2007, and more formally established early in 2008 as part of the PEP program, to improve efficiency, stimulate sales and increase customer loyalty helped offset the downward pressure of the difficult economic situation on the Corporation's results.

In early 2009, several factors kept Canadian consumer confidence at an historic low. The unemployment rate in February reached 7.7%, its highest level since 2003, and the economic decline was more severe than anticipated. This particular economic environment was unfavourable to renovation and construction activities, as demonstrated by a significant drop in housing starts, especially in the West. A number of measures were taken, however, by various levels of government to mitigate the effects of this recession, including the introduction of a home renovation tax credit, to which RONA promptly offered a complementary incentive in order to stimulate renovation activities in the country. According to the Bank of Canada, the recession in Canada was relatively short, as economic growth resumed in the third quarter of 2009. This recovery, combined with the many initiatives launched by RONA to stimulate renovation activity, had positive repercussions for the Corporation, which saw same-store sales increase quarter over quarter and end the year with positive fourth quarter same-store sales. The numerous efficiency improvements introduced under the PEP program in the first phase of the 2008–2011 strategic plan helped offset the negative impacts of the continued downward pressure on sales in the renovation and construction industries caused by low consumer confidence and of recently opened stores that had not yet reached their full potential. The PEP program enabled improvements in gross margin, reductions of inventory levels, optimization of the existing stores network and reduction of transportation and logistics costs.

At the beginning of 2010, the Corporation rolled out Phase II of its 2008-2011 strategic plan, called the "New World" program. It placed renewed emphasis on growth over the 2010-2011 period. The economic recovery which began in 2009 continued on through 2010 at a pace described by the Bank of Canada as modest. While the economy recovered, consumer confidence experienced a slide over the course of the year and, in the latter half of the year, there was a slowdown in housing market activity, when compared to 2009. As well, the incentives introduced by various levels of government during 2009 in the form of tax credit programs expired in early 2010. These unfavourable market conditions mitigated the impact of the Corporation's growth initiatives in 2010.

The first half of 2011 was a particularly difficult period in the Canadian renovation and construction industry, with uncertainty in the global economy pushing consumer confidence down to recession levels. Consumer caution and highly unfavourable weather conditions across the country exerted considerable pressure on same-store sales and RONA's net income. By the end of the second quarter, the Corporation had introduced measures to improve efficiency and optimize its capital structure, which quickly bore fruit and enabled it to report net income similar to that of the corresponding quarter in 2010, despite a 7.3% drop in same-store sales.

Despite the general slowdown in certain regions of the country and the effects of the recession on consumer confidence, RONA has continued to consolidate its market over the last three years, increasing its market share from 17.0% at the beginning of 2008 to 19% by the end of 2011. This growth was achieved through the Corporation's four growth vectors: customer growth or same-store sales growth, development of the affiliated dealer network, new store construction and acquisitions.

UPDATE ON THE CORPORATION'S STRATEGIC ORIENTATION

Consumer behaviour has changed in significant ways since the major financial crisis of 2008. In recent years, the major players in our industry have continued to grow either by opening big-box stores or by supporting the development of independent dealers who grappling with succession. During this period, RONA continued to study consumer behaviour, the anticipated impact of demographic change and business models used in other markets; it also tested small-store concepts. With the announcement of its 2011 results, the Corporation also announced the introduction of a plan to take advantage of the changes in consumer behaviour and to deploy and improve store formats as well as the consumer shopping experience.

The theme of RONA's 2012 business plan is *New Realities, New Solutions*. It acknowledges the need to adapt the offering in our industry to the new expectations and changes in consumer behaviour of many consumers. For a number of years RONA has foreseen the emergence in the market of proximity stores that meet the demands of consumers who want a higher level of service. RONA pioneered in this area by reinventing the proximity store in the early 2000s, and these stores have been a great success. This new plan capitalizes on our ongoing research into consumer expectations and behaviours, as well as our continual experimentation with new store formats and new retail sales approaches. It combines the best of these developments in a new proximity store format. The new approach brings us closer to Canadian consumers while taking into account the new social and economic realities they are facing.

Through the *New Realities, New Solutions* plan, we are further refining the proximity store concept, without having to make significant investments. Although renewing the proximity store concept is central to *New Realities, New Solutions*, this program has been launched after an exhaustive productivity improvement review of all RONA stores across the country. The program is composed of three major areas, and cross-functional teams are already working on them:

1. Introducing, in Spring 2012, a new integrated digital platform, which includes the new Web site rona.ca, to orient each different type of consumer with their renovation projects and support all of our retail activities.
2. Rolling out the new proximity store concept under the RONA banner, combining the strengths of the TOTEM model with best practices in RONA's proximity stores, in 20% of the RONA corporate store network.
 - Adapting the 20 TOTEM stores in Alberta to the new RONA proximity store concept by the first quarter of 2013.
 - In 2012 and 2013, turning 13 big-box stores into the new concept RONA proximity stores, which will involve decreasing the sales area by 30% - 50%. This area will then be rented.
 - In 2012 and 2013, redeploying the sales volume of 10 big-box stores to 15 new proximity stores that have an average area of 35,000 square feet and to 10 new satellite stores of 5,000 to 20,000 square feet based on the model successfully tested in 2011 in Georgetown, Ontario and Granby, Quebec. These stores will be closed when the redeployment of the sales volume has been completed.
3. Continued development of the commercial and professional segment by optimizing recent investments, opening 9 new complementary sales outlets and seeking out potential acquisitions in this still very fragmented market.

The new concept will also be applied to all future renovation, expansion and development projects for the proximity stores in the RONA corporate, franchise and affiliate network. The plan will also be important in recruiting dealers who will be able to benefit from RONA's expertise in applying the new proximity store and satellite store concept, as well as its succession program, which leads the way in the renovation and construction industry. Since these projects involve major changes, they will be completed in fiscal 2012 and 2013. The positive financial impacts should, however, start to materialize in fourth quarter 2012.

These projects will also be augmented by accelerated regional development through the investment of more than \$60 million by our RONA dealer-owners. Such initiatives add more than 200,000 square feet to the RONA network. Five new affiliate and franchise stores of 25,000 – 50,000 square feet are already under construction.

A plan that addresses RONA's three major financial priorities

In addition to positioning RONA in the forefront of its industry, the *New Realities, New Solutions* plan was designed to address the three main financial priorities announced in the last quarter: to improve efficiency, optimize capital structure and increase return on capital. It will increase the sales dollars generated per square foot, grow the average basket per customer and decrease the ratio of selling and administrative expense for existing operations.

The plan will provide important leverage in improving return on capital, as it will generate an estimated annualized contribution to EBITDA of \$10 million starting in the fourth quarter 2012, more than \$30 million for fiscal 2013, and will achieve its full potential of more than \$40 million starting in 2014. The plan also calls for limited investment of close to \$70 million over two years, which will be financed by selling non core assets. These projects meet RONA's investment criteria. They will generate an internal rate of return of close to 20% and will significantly contribute to the improvement of RONA's consolidated return on capital toward the targeted double digit objective.

ANALYSIS OF CONSOLIDATED RESULTS

The results analyzed in this section are for the fiscal year ended December 25, 2011 and, when compared, are compared to the results for the year ended December 26, 2010, unless otherwise indicated.

RONA has two reportable segments: (1) distribution and (2) retail and commercial.

The retail and commercial segment groups RONA's corporate and franchised stores ("Retail"), and its Commercial and Professional Market division ("Commercial"). The table below summarizes the Corporation's segment results.

Key segment figures (in thousands of dollars)	Year ended		\$ change from 2010	% change from 2010
	December 25, 2011	December 26, 2010		
Segment revenues				
Retail and commercial	3,591,200	3,621,096	(29,896)	(0.8%)
Distribution	2,401,224	2,433,080	(31,856)	(1.3%)
Total	5,992,424	6,054,176	(61,752)	(1.0%)
Intersegment revenues and royalties				
Retail and commercial	-	-	-	-
Distribution	(1,187,840)	(1,234,587)	46,747	3.8%
Total	(1,187,840)	(1,234,587)	46,747	3.8%
Revenues				
Retail and commercial	3,591,200	3,621,096	(29,896)	(0.8%)
Distribution	1,213,384	1,198,493	14,891	1.2%
Total	4,804,584	4,819,589	(15,005)	(0.3%)
EBITDA				
Retail and commercial	177,795	259,561	(81,766)	(31.5%)
Distribution	62,760	76,757	(13,997)	(18.2%)
Total	240,555	336,318	(95,763)	(28.5%)
EBITDA (excluding unusual items)				
Retail and commercial	206,457	259,561	(53,104)	(20.5%)
Distribution	62,760	76,757	(13,997)	(18.2%)
Total	269,217	336,318	(67,101)	(20.0%)
EBITDA margin				
Retail and commercial	4.95%	7.17%	-	-222 p.b.
Distribution	5.17%	6.40%	-	-123 p.b.
Total	5.01%	6.98%	-	-197 p.b.
EBITDA margin (excluding unusual items)				
Retail and commercial	5.75%	7.17%	-	-142 p.b.
Distribution	5.17%	6.40%	-	-123 p.b.
Total	5.60%	6.98%	-	-138 p.b.

Revenues

Consolidated revenues stood at \$4,804.6 million, down \$15.0 million, or 0.3% from 2010. Sales in the retail and commercial segment were down 0.8%; sales in the distribution segment were up 1.2%. The slight decrease in the retail and commercial segment is due to a decline of 7.3%, or close to \$300 million, in same-store sales, which was almost entirely offset by acquisitions, the opening of new corporate stores and the good performance of the Commercial and Professional Market division.

The decrease in same-store sales stems from the poor weather conditions in the first half of the year, particularly in March, April and May all across the country, as well as the decline in housing starts, the absence of the home renovation tax credit in the first part of the year compared to last year, and consumers' careful approach to their renovation projects. Market conditions gradually improved starting in July, but the downward pressure on same-store sales continued. Ontario and Atlantic provinces were least affected by the drop in sales, while Western Canada, and particularly British Columbia, were most affected; in British Columbia the referendum on the sales tax harmonization delayed major capital projects. Same-store sales were very good in December, and even grew. However, downward pressure returned in January 2012 given the low confidence levels of Canadian consumers, which was affected by the significant economic uncertainty which continued into the beginning of the year.

In the distribution segment, the recruitment of new dealers, the expansion projects of existing dealers and higher loyalty rates contributed to the higher sales, despite a decrease due to RONA's acquisition of some dealers and lower same-store sales for affiliate dealers, which, however, was less pronounced than for the corporate stores.

Unusual Items

As mentioned above, the *New Realities, New Solutions* plan will have a significant positive impact on RONA in the next few years. Implementation will, however, involve restructuring costs of \$181.3 million, including \$71.3 million recorded at year-end of which only \$9.8 million required a cash outflow almost entirely disbursed in 2011 as well \$110.0 million to be posted to 2012 results as initiatives are rolled out. Furthermore, the Corporation's annual goodwill impairment test led to a year-end write-down of \$117.0 million due to the adverse impact of difficult market conditions on funds generated by the Corporation's retail assets. Unusual expenses of \$9.9 million were also

recorded at year-end for fees and premiums related to the \$283 million repurchase of its debentures maturing in 2016. Note that the debenture repurchase will result in recurring annual interest savings of close to \$10 million starting in 2012.

Gross margin

Gross margin amounted to 28.08%, down 38 basis points, and adjusted gross margin excluding unusual items was down 12 basis points to 30.61%. The decrease stems mainly from increased promotional activities in the retail segment in the first half of the year. This was partly offset by higher sales in private and controlled brand products as well as new improvement initiatives deployed in the second half of the year.

EBITDA

The unusual items mentioned above in "Unusual Items" also affected EBITDA for the fiscal year, with EBITDA dropping from \$336.3 million in 2010 to \$240.6 million in 2011. Excluding unusual items, EBITDA amounted to \$269.2 million, compared to \$336.3 million in 2010, down \$67.1 million, or 20.0%. EBITDA margin excluding unusual items fell 138 basis points, to 5.60%, compared to 6.98% in 2010, translating into a decrease of 142 basis points for the retail and commercial segment and a decrease of 123 basis points for the distribution segment. In addition to the adverse impact of the decline in the gross profit in the first half and same-store sales throughout the year, the EBITDA margin was affected by acquisitions, as their EBITDA margins were lower than that of RONA's existing operations. Margins improved during the year with the implementation of the integration plan and are approaching RONA's consolidated margin. The abnormally high inventory levels supported following weak sales in the first part of the year also led to higher warehousing and transportation expenses, which had a negative impact on EBITDA and EBITDA margin.

Net Income

As mentioned above, unusual items affected RONA's operating results and net income, such that net income attributable to owners of RONA inc. went from \$137.4 million in 2010 to a loss of \$78.4 million in 2011. Excluding unusual items, net income attributable to owners of RONA inc. amounted to \$94.9 million, compared to \$137.4 million in 2010. The drop is due to the decrease in operating profit. Net earnings excluding unusual items attributable to participating shares after the dividend on preferred shares stood at \$86.9 million, compared to \$137.4 million, or \$0.66 per share diluted, compared to \$1.05 per share diluted in 2010. This result is in line with the objectives announced by the Corporation for the second half of fiscal 2011.

CASH FLOWS AND FINANCIAL POSITION

For fiscal 2011, cash flow from operating activities before net change in working capital, interest received and income taxes paid was \$202.3 million compared to \$311.0 million in 2010. The net change in working capital was \$66.7 million in 2011, compared to a negative net change of \$132.5 million in 2010. This improvement versus 2010 stems mainly from a \$110.0 million decrease in comparable inventories for retail and distribution operations in 2011. After the net change in working capital, interest received and income taxes paid, operating activities generated \$230.2 million in 2011, compared to \$138.1 million for the same period of 2010, up \$92.1 million.

The Corporation continued to exercise disciplined financial management and strictly monitored investments in property, plant and equipment. For fiscal 2011, RONA invested \$109.4 million in property, plant and equipment and intangible assets, \$36.9 million less than in 2010. These investments were used to expand operations in the Commercial and Professional Market division, to open new retail stores, to renovate existing retail stores, further improve information systems in order to improve operational efficiency, and for maintenance work. Note that the level of investment in tangible and intangible assets is at almost the same level as amortization and depreciation expense, which amounted to \$107.1 million in 2011 excluding unusual items. Considering about \$60.0 million for maintenance investments, RONA generated \$170.2 million of free cash flow in 2011 compared to \$78.1 million in 2010.

In the final quarter of the year, RONA implemented several measures to optimize its capital structure. The Corporation repurchased \$283 million of its debentures bearing interest at 5.4% and maturing in 2016. Also, in November 2011, the Corporation set up a program to repurchase, in the normal course of its activities between November 11, 2011 and November 10, 2012, up to 11,016,854 common shares, representing 10% of its 110,168,541 public float or 8.4% of its 130,520,489 common shares issued and outstanding on October 31, 2011. Shareholders may obtain, free of charge, copies of the documents filed with the Exchange with respect to the repurchase by writing to RONA's secretary. At year-end, 3,370,300 shares had been repurchased at an average price of \$9.43 per share. These shares were cancelled. In December 2011, RONA renewed its existing credit facility for a period of five years. The facility, which matured in 2012 was renewed to 2016 and the total amount available was increased from \$650 million to \$950 million.

The table thereafter presents a synopsis of the Corporation's contractual obligations as at December 25, 2011, including off-balance-sheet operating lease agreements used in the normal course of business. The Corporation has also concluded other off-balance-sheet arrangements (such as inventory buyback agreements and guaranteed mortgage loans), which do not appear in the table below. The Corporation has guaranteed mortgages amounting to \$1.3 million. The terms of these loans

extend until 2012 and the net carrying amount of the assets held as security, which mainly include land and buildings, is \$5.4 million. Pursuant to the terms of inventory repurchase agreements, the Corporation is committed towards financial institutions to buy back the inventory of certain customers at an average of 64% of the cost of the inventories to a maximum of \$45.0 million. In the event of recourse, this inventory would be sold in the normal course of the Corporation's operations. These agreements have undetermined periods but may be cancelled by the Corporation on 30 days' notice. In the opinion of Management, the likelihood that significant payments would be incurred as a result of these commitments is low. Finally, letters of credit for imports totalling \$40.0 million were outstanding as at December 25, 2011 for the purchase of various, mainly seasonal, products.

**Contractual obligations by term
(as at December 25, 2011)**

Contractual obligations	Payments by term (thousands of dollars)				
	Total	Less than 1 year	1-2 years	3-4 years	5 years and more
Long-term loans	233,424	7,462	9,734	210,480	5,748
Obligations under finance leases	1,806	851	588	337	30
Operating leases	1,051,982	139,813	256,872	208,375	446,922
Other long-term obligations	19,213	12,319	6,494	400	-
Total	1,306,425	160,445	273,688	419,592	452,700

**Outstanding shares
(as at February 16, 2012)**

Common shares	127,200,189
Unexercised options	1,814,975
Total	129,015,164

RONA's balance sheet remains strong. On December 25, 2011, the Corporation's total debt was \$256.7 million and net indebtedness was \$239.6 million. RONA thus has cash of \$17.1 million. The ratio of total net debt to capital was 10.9%, compared to 17.0% in 2010; the ratio of equity to assets was 70.3%, compared to 65.4%. The ratio of total debt to EBITDA was 1.1 at December 25, 2011 compared to 1.4 in 2010.

SUMMARY OF QUARTERLY RESULTS

RONA's results fluctuate significantly from one quarter to another due to the highly seasonal nature of renovation and construction activities. The strongest period of the year is from spring to fall, and over 80% of the Corporation's net annual earnings are generated in the second and third quarters. Furthermore, sales in the first quarter are always lower than in the other three, due to low activity levels in the renovation and construction sectors during the winter. Poor weather conditions can also have a major impact on sales. With the increase in the proportion of our activities related to the retail sector, the seasonal impact of the first quarter has been more pronounced in 2009, 2010 and 2011 than in previous years. The second quarter is always the strongest of the year, followed by the third quarter.

**Consolidated quarterly financial results
(in millions of dollars, except earnings per share)**

	2011				2010				2009*
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	1,169.2	1,347.1	1,370.0	918.2	1,139.2	1,319.2	1,404.2	956.9	1,140.9
EBITDA	37.2	105.4	89.9	8.1	64.8	103.7	133.1	34.8	78.8
EBITDA (excluding unusual items)	65.9	105.4	89.9	8.1	64.8	103.7	133.1	34.8	78.4
Net earnings (loss) attributable to participating shares	(153.6)	47.8	37.0	(17.6)	20.0	48.0	66.3	3.0	30.9
Net earnings (loss) attributable to participating shares (excluding unusual items)	19.7	47.8	37.0	(17.6)	20.0	48.0	66.3	3.0	30.6
Diluted earnings (loss) per share (\$)	(1.19)	0.36	0.28	(0.13)	0.15	0.36	0.51	0.02	0.24
Diluted earnings (loss) per share (\$) (excluding unusual items)	0.15	0.36	0.28	(0.13)	0.15	0.36	0.51	0.02	0.23

*The selected information that is presented for quarterly period in fiscal 2009 does not reflect the impact of the adoption of IFRS.

**Annual growth in same-store sales
Last nine quarters**

Q4-2011	Q3-2011	Q2-2011	Q1-2011	Q4-2010	Q3-2010	Q2-2010	Q1-2010	Q4-2009
-2.3%	-5.1%	-9.6%	-12.6%	-6.4%	-2.3%	+0.9%	+10.8%	+0.7%

The economic recovery which began in the second half of 2009 continued on through 2010 and 2011. While there was a surge of economic activity in the first quarter of 2010, the pace of economic growth has slowed somewhat since, resulting in positive, but moderate economic growth.

While the economy recovered, consumer confidence declined in 2010 and 2011. In the second half of 2010 and the first half of 2011, there was a slowdown in housing market activity, when compared to 2009. As well, the incentives introduced by various levels of government during 2009 in the form of tax credit programs expired in early 2010.

In early 2009, consumer confidence was at its lowest since January 2005. It improved over the course of 2009, but began dropping off again at the beginning of 2010. It did not drop back to the levels of 2009, but rather stabilized somewhat in the latter half of 2010 and in early 2011 at a level below what had been seen between mid-2006 and early 2008.

Weather also had an important impact on results for the first quarters of 2010 and 2011 a positive impact in 2010, when the weather was very good, and a negative impact in 2011, when the weather was very bad, with the unfavourable conditions continuing into the second quarter of 2011. In the second half of 2011, weather conditions were relatively good, but consumer confidence had declined to a level lower than that of the corresponding period in 2010.

DIVIDENDS ON PREFERRED SHARES

At its meeting on February 22, 2012, RONA's Board of Directors declared a quarterly dividend of \$0.3227 per share on cumulative 5-year rate reset Class A preferred shares, series 6. The dividend will be paid on March 30, 2012, to holders of record on March 15, 2012.

DIVIDENDS ON COMMON SHARES

At its meeting on February 22, 2012, RONA's Board of Directors declared a semi-annual dividend of \$0.07 per share on the Corporation's common shares. This dividend will be paid on March 26, 2012 to holders of record on March 9, 2012.

OUTLOOK

- Despite the recent bright spots, we expect the difficult market conditions to continue in fiscal 2012. A survey by Pollara (<http://www.pollara.ca/ECLUB2012/>) shows that Canadians are pessimistic about the economic outlook for Canada in 2012. It is to be expected that consumers will remain cautious.
- In the immediate future, we will benefit from the measures introduced in second quarter 2011, which will have a positive impact on efficiency and optimization of our capital structure. Note that the repurchase of debentures, in particular, will save close to \$2.5 million in interest expense each quarter.
- The *New Realities, New Solutions* program will have a positive impact on sales and operating efficiency. While it is harder to predict how soon it will affect sales, given consumer attitudes and caution, the impact on operating efficiency is more foreseeable, and will strengthen starting in 2012, with the major benefits recurring in 2013.
- There are also many opportunities for regional market consolidation. RONA has a unique distribution and affiliate dealer network that is very well positioned to take advantage of these opportunities. RONA dealers plan to invest more than \$60 million in 2012. The offering for dealers who wish to join RONA is also very attractive given the roll-out of the new proximity store concept, excellent buying conditions, an experienced support team, an integrated and adaptable regional development strategy, and a pioneering succession program.

RISKS AND UNCERTAINTIES

Monitoring and improving its operations are constant concerns at RONA. In view of this, risk identification and management are critical. RONA has identified and assessed the major business risks that could have negative consequences on the achievement of its objectives and, by extension, on the Corporation's performance. A formal framework to manage strategic risks has been adopted.

RONA manages these risks on an ongoing basis and has introduced several activities with the goal of mitigating the main risks outlined in the following section in order to lessen their financial impact.

Market and competition

The home renovation, hardware and gardening industry is highly competitive. RONA's competitors include large national and multinational chains, regional groups and independent stores.

Trends in the renovation and construction sectors have a direct impact on RONA. The Corporation's sales are related, to a certain extent, to the number of housing starts, home resales, consumer interest in renovation and housing costs. In addition, the demand for home renovation, hardware and gardening products relies on consumer tastes and emerging trends, which means RONA has to keep in close touch with customer needs and demands. RONA enjoys a solid diversification of its activities, by geography, segment, banner and store format.

The sector in which RONA does business is highly seasonal in nature. Changes in weather patterns have a certain impact on sales, and sales in the first quarter are always lower than in the other three because there is so little home renovation activity during the winter.

These various factors can have a significant impact on the Corporation's financial position.

The economy

A significant portion of spending in the renovation, hardware and gardening sector is discretionary and therefore sensitive to economic conditions, the strength of the economy and consumer purchasing power. In addition, the price of lumber and other construction materials fluctuates with market demand, which in turn affects the Corporation's sales.

As explained, economic conditions have an impact on RONA's results. While economic recovery is underway, 2011 saw a decline in consumer confidence over the year, as well as a slowdown in new housing and resale activity. However, RONA has a tightly managed balance sheet, a diversified business model, and improved operational efficiency as a result of the PEP program implementation. As it has done in the past, management is taking proactive steps in response to the current economic conditions.

Furthermore, various factors such as the exchange rate, the unemployment rate, interest rates, general credit conditions and commodity prices like lumber, copper, gas, electricity and natural gas can all have a negative impact on the Corporation's financial results.

Human resources

To achieve its goals, the Corporation has to attract, train and retain a high number of competent employees while still keeping payroll costs under control. The Corporation's ability to control labour costs is subject to a number of external factors, including remuneration and group insurance rates.

An inability to attract, train and retain skilled employees can have an impact on the Corporation's growth capacity and financial performance.

Information technology

Because of the Corporation's particular business model and growth through acquisitions, its information technology structure is complex. The Corporation has made significant IT investments and will continue to do so in its stores, distribution centres and administrative centres. These investments allow it to integrate its systems, simplify the structure of its technology platform, meet operational needs and take advantage of technological advances. An inability to integrate its systems within a reasonable time frame could prevent it from achieving its expected financial goals.

Reputation

The Corporation sells a variety of products with many different brands, including its own private brand. Consumer perception of the Corporation could be harmed if there were damage to the reputation of these brands. A number of other factors could also affect RONA's reputation and seriously impact its performance, including non-compliance with laws or regulations (especially with respect to the environment), legal proceedings against the Corporation or the disclosure of personal or confidential information.

Supply chain

The Corporation must plan for and satisfy its store needs for merchandise and therefore depends on national and international suppliers to provide timely delivery of merchandise at reasonable prices, while meeting quality standards. It is important for RONA to establish solid and lasting relationships with its suppliers in order to avoid stock-outs or unexpected changes in the price of merchandise.

RONA must pursue optimum management of the supply chain, as an inability to do so could affect its financial situation.

Acquisition, Recruitment, Integration, Development

Acquisitions and recruitment are two of the four vectors of RONA's development strategy. While the Corporation wants to recruit or make acquisitions, nothing guarantees the availability of businesses that meet its rigorous selection criteria. RONA's goal is to quickly integrate and build loyalty in all acquired and recruited businesses to achieve the expected benefits. RONA's desire to expand may also be hampered by an inability to find locations appropriate for development. When redeploying points of sales at new sites, the Corporation may not have access to the appropriate location in due time and could incur important fees considering its future engagements.

Legal and regulatory requirements

RONA makes every effort to comply with all laws and regulations, but legal proceedings or third-party lawsuits could negatively affect the Corporation's position and financial results.

Accounting standards

The implementation of new International Financial Reporting Standards and generally accepted accounting principles applicable in 2011 and actual Canadian GAAP are complex, involving numerous assumptions and estimates, and may be subject to interpretation by RONA management. These rules are also subject to change. Amendments to these principles, assumptions and estimates can have repercussions for RONA's financial results.

Furthermore, in the fiscal year ended December 25, 2011, there was no change to internal controls on financial information that could have a significant impact or that could reasonably be thought to have a significant impact on such controls.

Availability of financing

RONA may not have access to the financing needed for certain growth vectors. This could prevent it from concluding business acquisitions, or delay capital investments.

Limited availability of financing may affect the Corporation in a number of different ways. Lack of financing may affect RONA's ability to pursue its growth objectives or prevent it from acquiring other stores or delay investment in existing stores. The Corporation may not be able to achieve its growth objectives, which would negatively affect its financial results.

Management currently believes that the Corporation has the necessary funding for its development.

CHANGES IN ACCOUNTING STANDARDS

The Corporation has adopted IFRS for its 2011 fiscal year as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants.

The Corporation has provided a detailed explanation of the impacts of this transition in Note 31 of the Corporation's consolidated financial statements for the fiscal year ended December 25, 2011 ("Note 31"). Note 31 includes reconciliations of the Corporation's statement of financial position and shareholders' equity from Canadian GAAP to IFRS as at December 26, 2010, and its fiscal 2010 net income and comprehensive income. Explanations of the individual impacts of adopting IFRS identified in the reconciliations are also provided, as are the Corporation's elections under IFRS 1 "First-time Adoption of International Financial Reporting Standards". For a description of the significant accounting policies, please refer to Note 3 of the Corporation's Consolidated Financial Statements for the fiscal year ended December 25, 2011.

DISCLOSURE OF FINANCIAL INFORMATION

The work related to Canadian Securities Authorities Multilateral Instrument 52-109, "Certification of disclosure in issuer's annual and interim filings" ("MI 52-109") is being carried out in accordance with the recognized COSO (Committee of Sponsoring Organizations of the Treadway Commission) control framework and more specifically, for the technological portion, in accordance with the IT Governance Institute's IT Control Objectives for Sarbanes-Oxley guidelines.

DISCLOSURE CONTROLS AND PROCEDURES

RONA has evaluated its disclosure controls and procedures in accordance with the MI 52-109 guidelines. On December 25, 2011, the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are properly designed and effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

RONA has evaluated the effectiveness of internal control over financial reporting as at December 25, 2011 in accordance with the MI 52-109 guidelines. This evaluation has allowed the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer to conclude that the Corporation's internal control over financial reporting is effective and provides reasonable assurance that the Corporation's financial reporting is reliable and that its consolidated financial statements are prepared in accordance with International Financial Reporting Standards.

FORWARD-LOOKING STATEMENTS

This MD&A includes "forward-looking statements" that involve risks and uncertainties. All statements other than statements of historical facts included in this MD&A, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the Corporation may constitute forward-looking statements within the meaning of the Canadian securities legislation and regulations. Forward-looking statements generally can be identified by the use of

forward-looking terminology such as “may,” “will,” “expect,” “intend,” “estimate,” “anticipate,” “plan,” “foresee,” “believe” or “continue” or the negatives of these terms or variations of them or similar terminology. Although the Corporation believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Forward-looking statements do not take into account the impact that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Corporation’s business. For example, they do not include the impact of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made.

Investors and others are cautioned that undue reliance should not be placed on any forward-looking statements. For more information on the risks, uncertainties and assumptions that would cause the Corporation’s actual results to differ from current expectations please refer to the Corporation’s public filings available at www.sedar.com and www.rona.ca. In particular, further details and descriptions of these and other factors are disclosed in this MD&A under the “Risks and Uncertainties” section and in the “Risk Factors” section of the Corporation’s current Annual Information Form.

The forward-looking statements in this MD&A reflect the Corporation’s expectations as at February 23, 2012, and are subject to change after this date. The Corporation expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

ADDITIONAL INFORMATION

This MD&A was prepared on February 23, 2012. The reader will find additional information concerning RONA, including the Corporation’s Annual Information Form, on the Corporation’s website at www.rona.ca or on the SEDAR website at www.sedar.com.

Dominique Boies
Executive Vice President
and Chief Financial Officer

Robert Dutton
President and
Chief Executive Officer

MANAGEMENT'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of RONA inc. as well as the financial information contained in the Management's Discussion and Analysis have been prepared by the Senior Financial Management of RONA inc. The preparation of the financial statements is based on a choice of appropriate accounting principles and methods, the application of which requires making estimates and informed judgments. It also includes ensuring that the financial information in the Management's Discussion and Analysis is consistent with the consolidated financial statements. These consolidated financial statements were prepared in accordance with International Financial Reporting Standards and were approved by the Board of Directors.

RONA inc. maintains accounting and internal control systems which, in the opinion of management, provide reasonable assurance regarding the accuracy, relevance and reliability of financial information and the well-ordered and efficient management of the Corporation's business activities.

The Board of Directors fulfills its duty in respect of the consolidated financial statements principally through its Audit Committee. This Committee is comprised solely of outside directors and is responsible for making recommendations for the nomination of external auditors. Moreover, this Committee, which holds periodic meetings with members of management and internal and external auditors, has reviewed the consolidated financial statements of RONA inc. and recommended their approval to the Board of Directors. The internal and external auditors have access to the Committee without management.

The attached consolidated financial statements have been audited by the firm Raymond Chabot Grant Thornton LLP, Chartered Accountants, and their report indicates the scope of their audit and their opinion on the consolidated financial statements.

Robert Dutton
President and Chief Executive Officer

Dominique Boies
Executive Vice President and Chief Financial Officer

Boucherville, February 22, 2012

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated financial statements of RONA inc., which comprise the consolidated statements of financial position as at December 25, 2011, December 26, 2010 and December 28, 2009 and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years ended December 25, 2011 and December 26, 2010, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of RONA inc. as at December 25, 2011, December 26, 2010 and December 28, 2009 and its financial performance and its cash flows for the years ended December 25, 2011 and December 26, 2010 in accordance with International Financial Reporting Standards (IFRS).

Raymond Chabot Grant Thornton LLP¹

Montréal
February 22, 2012

¹ Chartered accountant auditor permit 10019

RONA inc.**Consolidated Income Statements and Other Comprehensive Income**

Years ended December 25, 2011 and December 26, 2010

(in thousands of Canadian dollars, except per share amounts)

Consolidated Income Statements

	2011	2010
Revenues (Note 4)	\$ 4,804,584	\$ 4,819,589
Operating profit before goodwill impairment and restructuring costs, impairment of non-financial assets and other charges (Note 5.1)	156,900	223,205
Goodwill impairment (Note 14)	(117,000)	–
Restructuring costs, impairment of non-financial assets and other charges (Notes 5.4 and 32)	(71,343)	–
Operating profit (loss)	(31,443)	223,205
Finance income (Note 25)	5,262	4,394
Finance costs (Note 25)	(34,729)	(24,061)
	(29,467)	(19,667)
Income (loss) before income tax expense	(60,910)	203,538
Income tax expense (Note 7)	(13,863)	(60,717)
Net income (loss)	\$ (74,773)	\$ 142,821
Net income (loss) attributable to:		
Owners of RONA inc.	\$ (78,382)	\$ 137,356
Non-controlling interests	3,609	5,465
	\$ 74,773	\$ 142,821
Net income (loss) per share attributable to owners of RONA inc. (Note 29)		
Basic	\$ (0.66)	\$ 1.06
Diluted	\$ (0.66)	\$ 1.05
Consolidated Statements of Other Comprehensive Income		
Net income (loss)	\$ (74,773)	\$ 142,821
Other comprehensive income (loss) net of taxes :		
Cash flow hedges		
– Loss for the year	(920)	(1,490)
– Reclassification to income or loss	1,632	273
Actuarial losses (Note 26)	(2,775)	(2,352)
Total other comprehensive income (loss)	(2,063)	(3,569)
Total comprehensive income (loss)	\$ (76,836)	\$ 139,252
Total comprehensive income (loss) attributable to:		
Owners of RONA inc.	\$ (80,445)	\$ 133,787
Non-controlling interests	3,609	5,465
	\$ (76,836)	\$ 139,252

The related notes form an integral part of these consolidated financial statements.

RONA inc.
Consolidated Statements of Changes in Equity

as at December 25, 2011 and December 26, 2010

(in thousands of Canadian dollars)

	Share capital ^(a)	Retained earnings	Contributed surplus	Cash flow hedge reserve	Total attributable to owners of RONA inc.	Non-controlling interests	Total equity
Balance, December 26, 2010	\$ 632,614	\$ 1,233,454	\$ 11,137	\$ (1,217)	\$ 1,875,988	\$ 35,809	\$ 1,911,797
Transactions with owners							
Issuance in exchange for cash	173,050	—	—	—	173,050	—	173,050
Issuance under stock option plans	1,770	—	(295)	—	1,475	—	1,475
Repurchase of common shares (Note 22)	(16,399)	(15,369)	—	—	(31,768)	—	(31,768)
Dividends declared and paid on common shares	—	(9,134)	—	—	(9,134)	—	(9,134)
Dividends declared on preferred shares, including income taxes ^(b)	—	(7,985)	—	—	(7,985)	—	(7,985)
Cash dividends paid by a subsidiary to non-controlling interests	—	—	—	—	—	(3,920)	(3,920)
Fees related to issuance of preferred shares, net of related income tax recovery of \$1,476	—	(4,008)	—	—	(4,008)	—	(4,008)
Compensation cost relating to stock option plans	—	—	1,034	—	1,034	—	1,034
Deposits on common share subscriptions received	2,456	—	—	—	2,456	—	2,456
Deposits on common share subscriptions refunded	(75)	—	—	—	(75)	—	(75)
Repurchase of a non-controlling interest (Note 9)	—	—	(490)	—	(490)	—	(490)
Other	—	—	—	—	—	28	28
Total transactions with owners	160,802	(36,496)	249	—	124,555	(3,892)	120,663
Income (loss) for the period	—	(78,382)	—	—	(78,382)	3,609	(74,773)
Other comprehensive income :							
Cash flow hedges							
- Loss for the period	—	—	—	(920)	(920)	—	(920)
- Reclassification to income or loss	—	—	—	1,632	1,632	—	1,632
Actuarial losses	—	(2,775)	—	—	(2,775)	—	(2,775)
Total other comprehensive income for the period	—	(2,775)	—	712	(2,063)	—	(2,063)
Balance, December 25, 2011	\$ 793,416	\$ 1,115,801	\$ 11,386	\$ (505)	\$ 1,920,098	\$ 35,526	\$ 1,955,624

(a) Additional detail of share capital is provided in Note 22.

(b) During 2011, RONA Inc. declared three dividends on preferred shares, two of which were paid at year end (Note 24).

The related notes form an integral part of these consolidated financial statements.

RONA inc.
Consolidated Statements of Changes in Equity

as at December 25, 2011 and December 26, 2010

(in thousands of Canadian dollars)

	Share capital ^(a)	Retained earnings	Contribution Surplus	Cash flow hedge reserve	Total attributable to owners of RONA inc.	Non-controlling interests	Total equity
Balance, December 28, 2009	\$ 603,756	\$ 1,125,235	\$ 13,138	\$ –	\$ 1,742,129	\$ 32,761	\$ 1,774,890
Transactions with owners							
Issuance in exchange for cash	370	–	–	–	370	–	370
Issuance under stock option plans	661	–	(62)	–	599	–	599
Issuance as payment for a business acquisition	35,722	–	–	–	35,722	–	35,722
Repurchase of common shares	(10,790)	(17,666)	(3,153)	–	(31,609)	–	(31,609)
Dividends declared on common shares ^(b)	–	(9,119)	–	–	(9,119)	–	(9,119)
Cash dividends paid by a subsidiary to non-controlling interests	–	–	–	–	–	(2,450)	(2,450)
Compensation cost relating to stock option plans	–	–	1,214	–	1,214	–	1,214
Deposits on common share subscriptions received	2,772	–	–	–	2,772	–	2,772
Deposits on common share subscriptions refunded	(28)	–	–	–	(28)	–	(28)
Other	151	–	–	–	151	33	184
Total transactions with owners	28,858	(26,785)	(2,001)	–	72	(2,417)	(2,345)
Income for the period	–	137,356	–	–	137,356	5,465	142,821
Other comprehensive income:							
Cash flow hedges							
- Loss for the period	–	–	–	(1,490)	(1,490)	–	(1,490)
- Reclassification to income or loss	–	–	–	273	273	–	273
Actuarial losses	–	(2,352)	–	–	(2,352)	–	(2,352)
Total other comprehensive income for the period	–	(2,352)	–	(1,217)	(3,569)	–	(3,569)
Balance, December 26, 2010	\$ 632,614	\$ 1,233,454	\$ 11,137	\$ (1,217)	\$ 1,875,988	\$ 35,809	\$ 1,911,797

(a) Additional detail of share capital is provided in Note 22.

(b) During 2010, RONA inc. declared a dividend of \$0.07 per share.

The related notes form an integral part of these consolidated financial statements.

RONA inc.
Consolidated Statements of Cash Flows

as at December 25, 2011 and December 26, 2010

(in thousands of Canadian dollars)

	2011	2010
Operating activities		
Income (loss) before income tax expense	\$ (60,910)	\$ 203,538
Adjustments:		
Depreciation, amortization and impairment of non-financial assets (Note 5.2)	149,736	108,718
Change in fair value of derivative financial instruments	(159)	(1,078)
Net gains on disposal of assets	(1,123)	(2,921)
Goodwill impairment (Note 14)	117,000	–
Stock-based compensation expense (recovery) (Note 23)	(2,684)	4,588
Difference between amounts paid for post-employment benefits and current period expenses	(2,855)	(3,921)
Other	3,308	2,078
	<u>202,313</u>	<u>311,002</u>
Net change in working capital (Note 8)	66,682	(132,479)
	<u>268,995</u>	<u>178,523</u>
Interest received	3,898	2,819
Income taxes paid	(42,648)	(43,270)
Cash flow from operating activities	<u>230,245</u>	<u>138,072</u>
Investing activities		
Business acquisitions (Note 9)	(47,707)	(80,275)
Acquisition of property, plant and equipment (Note 12)	(70,198)	(104,924)
Acquisition of intangible assets (Note 15)	(39,225)	(41,359)
Acquisition of other financial assets	(6,049)	(2,527)
Proceeds on disposal of property, plant and equipment	10,216	4,950
Proceeds on disposal of other financial assets	4,765	10,031
Interest received	1,365	1,575
Cash flow from investing activities	<u>(146,833)</u>	<u>(212,529)</u>
Financing activities		
Bank loans	(326)	(7,172)
Other long-term debt	92,112	1,899
Financing costs	(2,541)	–
Repayment of other long-term debt	(33,886)	(30,433)
Repurchase of debentures (Note 18)	(283,171)	–
Proceeds from issue of common shares	4,406	3,713
Proceeds from issue of preferred shares	172,500	–
Fees related to issue of preferred shares	(5,484)	–
Repurchase of common shares (Note 22)	(31,768)	(31,609)
Cash dividends paid by a subsidiary to non-controlling interests	(3,920)	(2,450)
Dividends on common shares	(18,253)	–
Dividends on preferred shares	(5,458)	–
Interest paid	(26,051)	(23,171)
Cash flow from financing activities	<u>(141,840)</u>	<u>(89,223)</u>
Net decrease in cash	<u>(58,428)</u>	<u>(163,680)</u>
Cash, beginning of period	75,577	239,257
Cash, end of period	<u>\$ 17,149</u>	<u>\$ 75,577</u>

The related notes form an integral part of these consolidated financial statements.

RONA inc.**Consolidated Statements of Financial Position**

as at December 25, 2011, 2011, December 26, 2010 and December 28, 2009

(in thousands of Canadian dollars)

	2011 December 25	2010 December 26	2009 December 28
Assets			
Current			
Cash	\$ 17,149	\$ 75,577	\$ 239,257
Trade and other receivables (Note 10)	370,094	299,889	248,201
Other financial assets (Note 11)	1,468	2,245	2,644
Current tax assets	7,616	–	2,436
Inventory (Note 6)	840,287	905,467	725,810
Prepaid expenses	20,836	17,955	18,114
Current assets	1,257,450	1,301,133	1,236,462
Non-current			
Other financial assets (Note 11)	13,617	9,644	11,118
Property, plant and equipment (Note 12)	874,246	885,044	827,883
Non-current assets held for sale (Note 13)	10,455	16,474	11,080
Goodwill (Note 14)	426,968	529,094	455,572
Intangible assets (Note 15)	126,968	128,223	106,157
Other non-current assets (Note 16)	5,435	3,245	4,406
Deferred tax assets (Note 7)	65,239	48,763	51,830
Total assets	\$ 2,780,378	\$ 2,921,620	\$ 2,704,508
Liabilities			
Current			
Bank loans	\$ 4,377	\$ 1,943	\$ 5,211
Trade and other payables	487,864	454,166	409,764
Dividends payable	2,527	9,119	–
Current tax liabilities	–	3,379	–
Derivative financial instruments (Note 25)	691	1,653	776
Provisions (Note 20)	6,947	4,625	7,002
Instalments on long-term debt (Note 18)	20,257	21,151	9,996
Current liabilities	522,663	496,036	432,749
Non-current			
Long-term debt (Note 18)	232,073	444,333	430,524
Other non-current liabilities (Note 19)	33,653	30,601	27,859
Provisions (Note 20)	3,606	4,539	10,762
Deferred tax liabilities (Note 7)	32,759	34,314	27,724
Total liabilities	824,754	1,009,823	929,618
Equity			
Share capital (Note 22)	793,416	632,614	603,756
Retained earnings	1,115,801	1,233,454	1,125,235
Contributed surplus	11,386	11,137	13,138
Accumulated other comprehensive income	(505)	(1,217)	–
Total equity attributable to owners of RONA inc.	1,920,098	1,875,988	1,742,129
Non-controlling interests	35,526	35,809	32,761
Total equity	1,955,624	1,911,797	1,774,890
Total liabilities and equity	\$ 2,780,378	\$ 2,921,620	\$ 2,704,508

The related notes form an integral part of these consolidated financial statements.

On behalf of the Board,

Réal Brunet
Chairman of the Audit Committee

Jean Gaulin
Chairman of the Board

1. Reporting entity

RONA inc., a corporation headquartered at 220 Chemin du Tremblay, Boucherville, Quebec, Canada is regulated by the *Business Corporations Act* (Quebec) (formerly Part 1A of the *Companies Act* (Quebec)). The common shares are listed on the Toronto Stock Exchange.

The Corporation's consolidated financial statements for the year ended December 25, 2011 and December 26, 2010 include financial data for the Corporation and its subsidiaries (collectively referred to as the "Corporation" and individually referred to as the "Corporation's entities") and the Corporation's share of the jointly controlled entities.

The Corporation is a distributor and a retailer of hardware, home improvement and gardening products in Canada.

2. Basis of presentation

(a) General information, first-time adoption of IFRS and declaration of conformity

These consolidated financial statements for the year ended December 25, 2011 were prepared in accordance with International Financial Reporting Standards ("IFRS") and are the Corporation's first annual consolidated financial statements under IFRS, therefore, IFRS 1, *First-time Adoption of International Financial Reporting Standards*, was applied.

The accounting policies described in Note 3 have been applied on a consistent basis for all reported periods, unless otherwise indicated. Previously, the consolidated financial statements of the Corporation were prepared according to Canadian GAAP in effect before the changeover ("GAAP").

Note 31 explains how the transition to IFRS affected the Corporation's reported financial position, results and cash flows.

(b) Measurement basis

These consolidated financial statements were prepared under the historical cost basis, except for the revaluation of certain financial instruments at estimated fair value and the defined benefit obligation at its present value less the fair value of the plan assets and less an adjustment to reflect the application of the limit on the asset.

(c) Functional and reporting currency

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of RONA inc. and all the Corporation's entities. All financial information presented in Canadian dollars is rounded to the nearest thousand, except per share amounts.

(d) Use of estimates and judgments

When preparing the financial statements, the Corporation's management undertakes a number of judgments, estimates and assumptions about recognition and measurement of amounts recorded in the financial statements and notes to financial statements.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is provided in the following notes:

- Note 3(d) – Inventory impairment, including loss and obsolescence
- Note 3(e) – Supplier rebate estimates
- Note 3(k) – Goodwill, property, plant and equipment and intangible assets impairment
- Note 3(l) – Lease classification
- Note 3(n) – Deferred tax assets and liability estimates and current tax assets and liabilities
- Note 3(o) – Provisions, contingent liabilities and contingent assets estimates
- Note 3(q) (r) (s) – Share-based payment measurement
- Note 3(u) – Allowance for doubtful accounts estimate
- Note 3(x) – Employee benefits estimates

These estimates are based on management's best knowledge of current events and actions that the Corporation may undertake in the future. The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from those estimates.

(e) Fiscal year

The Corporation's fiscal year includes 52 weeks and ends on the last Sunday of December.

(f) Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the current year.

2. Basis of presentation (continued)

(g) Effect of new accounting standards issued but not yet effective

In November 2009, the IASB issued new IFRS 9, *Financial Instruments*, that will replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard provides guidance on the classification and measurement of financial assets. In October 2010, the IASB amended IFRS 9 to add guidance on the classification and measurement of financial liabilities, and requirements for the derecognition of financial assets and financial liabilities.

In December 2011, the IASB amended the transition date of IFRS 9, which requires the application of IFRS 9 for periods beginning on or after January 1, 2015. The previous transition date was January 1, 2013.

In May 2011, the IASB issued the following new standards:

IFRS 10, *Consolidated financial statements*, replacing parts of IAS 27, *Consolidated and separate financial statements*, and SIC-12, *Consolidation – special purpose entities*, presents a new definition of control based on principles applicable to all issuers for determining the basis for consolidation. The standard provides a framework for the preparation of consolidated financial statements based on the principle of control.

IFRS 11, *Joint arrangements*, replaces IAS 31, *Interests in joint ventures*, and SIC-13, *Jointly controlled entities – non-monetary contributions by venturers*. IFRS 11 differs from prior standards in certain respects, among them, that the proportional method for accounting for interests in jointly controlled entities is no longer permitted.

IFRS 12, *Disclosure of interest in other entities*, is a new standard providing guidance on minimum disclosure requirements for interests in other entities held by a reporting entity. Disclosure requirements for interests in subsidiaries, joint arrangements, associates and special purpose entities excluded from the consolidation, currently found in separate applicable standards are combined into one comprehensive standard.

In June 2011, the IASB issued the following new standards:

An amended version of IAS 1, *Presentation of financial statements*, requires entities to group together items within other comprehensive income that may be reclassified to the income or loss section of the income statement. This amendment is effective for periods beginning on or after January 1, 2012.

An amended version of IAS 19, *Employee benefits*, eliminates the corridor method that defers the recognition of actuarial gains and losses, replaces the expected rate of return on assets used to determine the defined benefit cost by the obligation discount rate, streamlines the presentation of changes in assets and obligations arising from defined benefit plans and enhances the disclosure requirements for defined benefit plans.

These standards, excluding the amended IAS 1 and IFRS 9, are effective for periods beginning on or after January 1, 2013.

The Corporation is currently determining the effect of adopting these new requirements on its consolidated financial statements.

Certain other standards were issued but have no impact on the Corporation.

3. Significant accounting policies

The accounting policies described below were applied consistently by all of the Corporation's entities.

(a) Basis of consolidation

These consolidated financial statements include the accounts of the Corporation and its subsidiaries.

(i) Subsidiaries

A subsidiary is an entity controlled by the Corporation. RONA inc. obtains and exercises control through more than half of the voting rights for all its subsidiaries. The financial statements of the subsidiaries are included in the consolidated financial statements from the date of acquisition of control until the date the control ends.

(ii) Jointly controlled entities

Entities whose economic activities are controlled jointly by the Corporation and other venturers independent of the Corporation (joint ventures) are accounted for using the proportionate consolidation method, whereby the Corporation's share of the assets, liabilities, income and expenses is included with similar items, line by line, in the consolidated financial statements.

(iii) Eliminated transactions in the financial statements

Assets and liabilities, transactions, income and expenses from intercompany transactions are eliminated in the preparation of the consolidated financial statements.

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iv) Non-controlling interests

Non-controlling interests included in equity represent the portion of a subsidiary's profit or net assets that is not held by the Corporation. Income or loss and each component of other comprehensive income are allocated to the owners of RONA inc. and to non-controlling interests. Total comprehensive income is attributed to the owners of RONA inc. and to non-controlling interests in accordance with their respective shareholdings even if this results in the non-controlling interests having a deficit balance.

(b) Business combinations

Business combinations after the transition date to IFRS are accounted for using the acquisition method. Under this method, the identifiable assets acquired and liabilities assumed, including contingent liabilities, are recognized, regardless of whether they have been previously recognized in the acquiree's financial statements prior to the acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statement of financial position at their fair values. Goodwill is recorded when the identifiable intangible assets have been determined. Goodwill is the excess of the fair value of the consideration transferred over the fair value of RONA inc.'s share in the acquiree's net identifiable assets on the date of acquisition. Any excess of the identifiable net assets over the consideration transferred is recognized in income or loss immediately.

The consideration transferred by the Corporation to acquire control of a subsidiary is calculated as the sum of the acquisition-date fair values of the assets transferred, liabilities incurred and equity interests issued by the Corporation, including the fair value of all the assets and liabilities resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

(c) Revenue recognition

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns, rebates and trade and quantity discounts. The Corporation recognizes revenue at the time of sale in stores or upon delivery of the merchandise, when the sale is accepted by the customer and when collection is reasonably assured.

Revenue also includes various services provided by the Corporation, such as product installation and delivery. Revenue from the rendering of services is measured at the fair value of the consideration received or receivable. The Corporation recognizes revenue when the commercial obligations have been fulfilled, the services have been accepted by the customer and collection is reasonably assured.

Revenue also includes royalties received from franchised stores. Royalties are measured as a percentage of revenue and are recognized as earned and when collection is reasonably assured.

Interest income and expenses relating to receivables and loans and advances are reported on an accrual basis using the effective interest method.

(d) Inventory valuation

Inventory is valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method.

The cost of inventories comprises all costs of purchase and other costs incurred in bringing the inventory to its present location and condition, including realized gains or losses on qualifying cash flow hedges of foreign currency inventory purchases. Inventory is comprised mainly of finished goods.

Net realizable value is the estimated selling price in the ordinary course of business less any applicable estimated selling expenses.

Estimating the impact of certain factors on the net realizable value of inventory, such as obsolescence and losses of inventory, requires a high level of judgment. Inventory quantities, age and condition are measured and assessed regularly throughout the year.

(e) Vendor rebates

The Corporation records cash consideration received from vendors as a reduction in the price of vendors' products and reflects it as a reduction of cost of goods sold and the related inventory in the consolidated income statement and consolidated statement of financial position. Certain exceptions apply where the cash consideration received is either a reimbursement of incremental selling costs incurred by the reseller or a payment for goods or services supplied to the vendor, in which case the rebate is reflected as a reduction of operating expenses.

The Corporation recognizes these rebates when receipt is more likely than not and the amounts can be reasonably estimated.

To determine probability and estimated receipts, the Corporation uses actual purchases during the period, attainment of purchase forecasts and contractual terms and conditions. The assumptions are reassessed each period.

3. Significant accounting policies (continued)

(f) Customer rebates

The Corporation records cash consideration paid to customers as a reduction in the selling price of the product and presents it as a reduction to sales of goods in the consolidated income statement.

The Corporation recognizes these rebates when receipt is more likely than not and the amounts can be reasonably estimated.

(g) Property, plant and equipment

Property, plant and equipment are recognized at cost including capitalized interest, if applicable. When items of property, plant and equipment have different useful lives, they are recognized separately.

Borrowing costs to finance the construction of an item of property, plant and equipment that takes a substantial period of time to get ready for use are capitalized from the date the work is undertaken until the date activities that are necessary to prepare the asset for its intended use are all substantially completed. The capitalization of borrowing and other similar costs is suspended during prolonged periods in which the active development is suspended.

Depreciation begins when the items of property, plant and equipment are available for use and is recognized on a straight-line basis in order to depreciate the cost of the assets, less their residual values, over their estimated useful lives which are the following:

Parking lots	15 years
Buildings	15 to 40 years
Leasehold improvements	Lease term
Furniture and equipment	3 to 20 years
Computer hardware	5 years
Assets under finance leases	5 to 10 years

Depreciation methods, useful lives and residual values are reassessed annually.

The Corporation owns some properties that are leased to affiliated merchants in the RONA group. These properties are not considered as investment property because they are used in the supply of goods and the operations of these merchants generate cash flows that are not solely attributable to these properties. Accordingly, they are presented with property, plant and equipment.

Land for future development is held for eventual development as a real estate asset to be occupied by its owners.

(h) Non-current assets held for sale

A non-current asset or group of assets which the Corporation intends to sell is classified as held for sale and presented separately in the statement of financial situation if the following conditions are met:

- Its sale within one year is highly probable;
- The asset (or group of assets) is available for immediate sale in its present condition;
- Management is committed to a plan to sell the asset (or group of assets) and there is an active program to locate a buyer for sale at a price that is reasonable in relation to its current fair value.

Assets held for sale are measured at the lower of their carrying amount immediately before their classification as assets held for sale and their fair value less cost to sell. An asset that is classified as held for sale is no longer depreciated.

(i) Intangible assets

Software, trademarks with finite useful lives, dealer recruitment costs, customer relationships and preferential price leases are carried at cost less accumulated amortization and accumulated impairment losses. Acquired computer software is capitalized on the basis of the costs incurred to acquire licences and install the specific software.

Amortization is calculated on the cost of the asset less its residual value. Software is amortized on a straight-line basis over periods ranging from five to ten years. Trademarks are amortized on a straight-line basis over periods ranging from five to seven years. Dealer recruitment costs are amortized on a straight-line basis over a period of five years. Customer relationships are amortized on a straight-line basis over a period of ten years. Preferential price leases are amortized on a straight-line basis over the term of the lease. The amortization method, useful life and residual values are reviewed annually.

Trademarks with indefinite useful lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable.

Amortization of intangible assets is included in depreciation, amortization and impairment of non-financial assets in the consolidated income statement.

Borrowing costs are capitalized in intangible assets using the same method as for property, plant and equipment.

3. Significant accounting policies (continued)

(j) Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identifiable and recorded separately. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it is impaired. Goodwill is measured at cost less accumulated impairment losses.

(k) Impairment of non-current assets

At the end of each reporting period, the carrying amounts of property, plant and equipment and intangible assets with finite useful lives are assessed to determine if there is any evidence that an asset is impaired. If there is such evidence, the recoverable amount of the asset is estimated. The recoverable amount of intangible assets with indefinite useful lives or that are not ready for use is estimated on the same date each year.

The recoverable amount of an asset or a cash generating unit is the higher of value-in-use and fair value less costs to sell. To determine value-in-use, expected future cash flows are discounted using a before-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset. In the process of measuring expected future cash flows, the Corporation makes assumptions about future operating profit. These assumptions relate to future events and circumstances. Although the assumptions are based on market information available at the time of the assessment, actual results may vary.

Assets that cannot be tested individually for the impairment test are grouped into the smallest group of assets that generates cash inflows through continued use that are largely independent of the cash inflows from other assets or groups of assets ("cash-generating unit" or "CGU"). For the impairment test of goodwill, CGUs to which goodwill has been allocated are grouped so that the level at which the impairment is tested represents the lowest level at which management monitors goodwill for internal management purposes. CGU groupings are limited to the operating sector. Goodwill acquired in a business combination is allocated to CGU groups that are expected to benefit from synergies of the related business combination.

The Corporation's corporate assets do not generate separate cash flows. If there is evidence that a corporate asset is impaired, the recoverable amount is determined for the CGU to which the corporate asset belongs. Impairments are recorded when the carrying amount of an asset or its CGU is higher than its recoverable amount. Impairment charges are recognized in income or loss.

Impairment losses recognized for a CGU (or group of CGU) first reduce the carrying amount of any goodwill allocated to that CGU and then reduce the carrying amounts of the other assets of the CGU (or group of CGU) pro rata on the basis of the carrying amount of each asset in the CGU (or group of CGU).

An impairment loss recognized for goodwill may not be reversed. On each reporting date, the Corporation assesses if there is an indication that impairment losses recognized in previous periods for other assets have decreased or no longer exist. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. The increased carrying amount of an asset attributable to a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized.

(l) Leased assets

Leases in which substantially all the risks and rewards of ownership of an asset are transferred to the Corporation are classified as finance leases. On initial recognition, the leased asset is carried at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. Following initial recognition, the asset is carried using the applicable accounting method for that type of asset.

All other leases are operating leases and, accordingly, the related leased asset is not included in the Corporation's consolidated statement of financial position. Lease payments under an operating lease are recognized in income or loss on a straight-line basis over the lease term. Lease benefits are recognized as a reduction of total lease expenses over the lease term. Deferred lease incentives are recognized on a straight-line basis over the lease term.

(m) Other non-current assets

Other non-current assets include, among others, financing costs which are amortized on a straight-line basis over the financing term.

(n) Income taxes

Income tax expense includes current tax and deferred tax. Income tax expense is recognized in income or loss, except where it relates to items that are recognized directly in other comprehensive income or in equity, in which case it is recognized directly in other comprehensive income or equity.

Current taxes are taxes that are expected to be paid on taxable income for the year, using the tax rates that have been enacted or substantively enacted by the end of the reporting period and include any income tax adjustment in respect of prior years.

Deferred income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse.

3. Significant accounting policies (continued)

(n) Income taxes (continued)

The Corporation recognizes an income tax expense in each of the jurisdictions in which it operates. However, actual amounts of income tax expense only become final upon filing and acceptance of the tax return by the relevant authorities, which occur subsequent to the issuance of the financial statements. Additionally, estimation of income taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the ability to use the underlying future tax deductions before they expire against future taxable income. The assessment is based upon enacted or substantively enacted tax laws and estimates of future taxable income. To the extent estimates differ from the actual amounts determined when preparing the final tax returns, earnings would be affected in a subsequent period.

(o) Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Corporation has a present legal or constructive obligation as a result of past events for an amount that can be estimated reliably, and it is likely that an outflow of economic resources will be required to settle the obligation. Provisions that expire in more than 12 months are determined by discounting expected future cash flows if the effect of discounting is material, at a pre-tax rate that reflects market assessment of the time value of money and the risks specific to the liability.

A provision for an onerous contract is recognized when the economic benefits expected to be received under the contract are less than the unavoidable costs of meeting the obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating or performing the contract. Before establishing a provision, the Corporation recognizes any impairment loss that has occurred on the assets dedicated to that contract.

A provision for restructuring costs is recognized when the Corporation has established a detailed formal plan for the restructuring and the Corporation has started to implement or has publicly announced the restructuring. There is no provision for future operating losses.

A guarantee provision is recognized when the related goods or services are sold. The provision is based on historical data on guarantees.

Provisions are reviewed at the end of each reporting period and are adjusted to reflect the best estimates at that date.

In those cases where the possible outflow of economic resources as a result of present obligations is considered improbable or remote, no liability is recognized. In a business combination, contingent liabilities are recognized based on the purchase price allocation between identifiable assets acquired and liabilities assumed through the business combination. They are subsequently measured at the higher amount of a comparable provision as described above and the amount initially recognized, less any amortization.

Probable receipts of economic benefits for the Corporation that do not yet meet asset recognition criteria are treated as contingent assets that are not recognized in the statement of financial position.

If all or a portion of the expenditure required to settle a provision is reimbursed by another party, the reimbursement is recognized as a separate asset when, and only when it is virtually certain that reimbursement will be received if the entity settles the obligation.

(p) Other non-current liabilities

Other liabilities include in deferred lease obligations resulting from the recognition, by the Corporation, of the rental expense on a straight-line basis over the lease term when leases contain a predetermined fixed escalation of the minimum rent.

(q) Stock option plans

Compensation expense related to options issued by the Corporation is measured at the fair value of the options at the grant date and recognized over the applicable stock option vesting period, which is the expected service period of the employees. The compensation expense credit is attributed to contributed surplus when the expense is recognized in income or loss.

Compensation expense recognized is adjusted to reflect the number of options that has been estimated by management for which conditions attaching to service will be fulfilled as of the grant date until the vesting date so that the ultimately recognized expense corresponds to the options that have actually vested. When options are exercised or shares are purchased, any consideration received from employees as well as the related compensation cost recorded as contributed surplus are credited to share capital.

(r) Share unit plan for officers

The Corporation offers a restricted share unit plan (RSU) to officers and key employees of the Corporation. The RSUs are vested over a maximum term of three years based on performance targets and passage of time.

The fair value of RSUs is recognized as a compensation expense on a straight-line basis over the vesting period. The RSUs are revalued at fair value at the end of each reporting period until the vesting date using the market price of the Corporation's common shares. Fair value changes are accounted for as compensation expense with a corresponding charge to trade and other payables.

3. Significant accounting policies (continued)

(s) Share unit plan for directors

Members of the Corporation's Board of Directors, who are not Corporation's management, may elect to receive all or a portion of their annual fees in the form of deferred share units (DSUs). The DSU compensation liability is recognized at fair value based on the number of units outstanding and the market value of the Corporation's common shares. Fair value changes are recognized as compensation expense with a corresponding charge to trade and other payables.

(t) Foreign currency

Foreign currency transactions are translated into the Corporation's functional currency, the Canadian dollar, using the exchange rate prevailing at the date of the transactions.

Foreign currency denominated monetary assets and liabilities are translated into the functional currency using the exchange rates prevailing at the closing date.

Non-monetary items are translated at the historical rates of exchange. Revenues and expenses are translated at the rates of exchange in effect on the transaction date or at the average exchange rates for the period.

Foreign exchange gains and losses resulting from the settlement of transactions and from the remeasurement of monetary and non-monetary items at the closing date are recognized in income or loss.

(u) Financial instruments

Financial assets and liabilities are initially recognized at fair value plus transaction costs directly attributable to the acquisition or issuance of a financial asset or liability and subsequent measurement depends on their classification as described below:

- Cash, trade and other receivables and loans and advances (included in other financial assets) are classified as loans and receivables. Cash is recorded at amortized cost which generally corresponds to initial measurement. Trade and other receivables are recorded at amortized cost which generally corresponds to initial measurement less any allowance for doubtful accounts. Loans and advances are subsequently measured at amortized cost using the effective interest method.
- Bank loans, trade and other payables and long-term debt are classified as other financial liabilities and are measured at amortized cost using the effective interest method.

With the exception of transaction costs associated with the revolving credit which are presented as other non-current assets, transaction costs associated with financial liabilities measured at amortized cost are carried as a reduction in the carrying amount of the related financial liability. These costs are amortized over the term of the related financial liability using the effective interest method.

Financial assets are derecognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is derecognized when it is extinguished, discharged, cancelled or expired. All financial assets except for those measured at fair value through the consolidated income statements are subject to review for impairment at least at each reporting date.

(v) Derivative financial instruments and cash flow hedges

The Corporation uses derivative financial instruments to manage foreign exchange risk. The Corporation does not use derivative financial instruments for speculative or trading purposes.

At the initial designation of the hedge, the Corporation formally documents the relationship between the hedging instrument and the hedged instrument, the risk management objectives, the strategy for undertaking the hedge and how the effectiveness of the hedging relationship will be assessed. At the inception of the hedge and on an ongoing basis, the Corporation assesses if the hedge is expected to be "highly effective" in achieving offsetting changes in fair value or cash flows of the hedged items throughout the periods for which the hedge is designated.

Derivatives are carried initially at fair value, attributable transaction costs are recognized in income or loss as incurred. After initial recognition, derivatives are measured at fair value and resulting changes are recognized as follows.

When a derivative is designated as a hedging instrument for a hedge of changes in cash flows attributable to a particular risk associated with a highly probable forecast transaction that could affect income, the effective portion of changes in the fair value of the derivative is recognized in other comprehensive income and presented in the cash flow hedge reserve in equity. The amount recognized in other comprehensive income is reclassified to the income statement over the period in which the hedged cash flows affect income; the amount is recognized in the same line of other comprehensive income as the hedged item. Any ineffective portion of fair value changes of the derivative is recognized immediately in income or loss.

When a hedge no longer meets the criteria for hedge accounting, expired, is sold, cancelled, exercised or when its designation is cancelled, the Corporation discontinues hedge accounting prospectively. The cumulative loss or gain at that date in other comprehensive income remains in the hedge reserve in equity until the forecast transaction occurs. When the hedged item is a non-financial asset, the associated cumulative loss or gain recognized in other comprehensive income is transferred to the initial cost of the asset when recognized. If the forecast transaction is no longer expected to occur, the balance of other comprehensive income is transferred immediately to income or loss. In other cases, the associated loss or gain recognized in other comprehensive income is transferred to income or loss over the periods in which the hedged item affects income or loss.

3. Significant accounting policies (continued)

(w) Equity

Share capital represents the amount received for shares issued. When the securities are issued on a business acquisition, the amount recognized is the fair value at the acquisition date.

The treasury share reserve includes the cost of the Corporation's shares held by joint ventures.

Deposits on common share subscriptions represent amounts received during the year from affiliated and franchised merchants in accordance with commercial agreements.

Retained earnings include all current and prior period retained profits. Also included are fees related to the issuance of shares, net of income tax recoveries.

Contributed surplus includes the compensation cost relating to the Corporation's stock option plans. It also includes gains on the disposal of RONA inc.'s common shares by the subsidiaries and joint ventures.

The cash flow hedge reserve consists of the effective portion of the cumulative net change in the fair value of a hedging instrument in a cash flow hedge associated with unrealized hedging transactions.

Non-controlling interests consist of the subsidiary's equity that the Corporation does not hold directly or indirectly.

Dividends on common shares attributable to shareholders are presented in other liabilities when approved prior to the reporting date.

Cumulative dividends on preferred shares are classified as other liabilities and are recognized with the passage of time.

(x) Employee benefits

Defined benefit plans

The asset or liability recognized in the statement of financial position for the defined benefit plans is the present value of the defined benefit obligations at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs and certain adjustments, as described below:

- Unrecognized amount due to the limit of the asset.
- Liability recognized for minimal financing requirements

The actuarial valuation of the defined benefit obligations for pension uses the projected unit credit method, and management's best estimate of expected salary escalation, retirement ages of employees and the mortality rate. The Corporation's obligations under the defined benefit plans are measured separately for each plan by estimating the amount of employees' future benefits acquired for services rendered during the current and prior periods.

Discount rates for obligations are determined with reference to the market rate of return, at the closing date, by reference to high quality corporate bonds that are denominated in the currency in which the benefits will be paid that have terms to maturity approximating the terms of the related pension liability.

Actuarial gains and losses resulting from calculating the present value of the accrued defined benefit obligations and fair value of plan assets are recognized in the consolidated statement of other comprehensive income and recognized immediately in retained earnings without recycling on the consolidated income statement.

The defined benefit asset amount may not exceed the present value of any economic benefit available in the form of a future refund or a reduction in future plan contributions (the "asset limit"). Minimum funding requirements applicable to the Corporation plan are included in the calculation of the present value of the economic benefits. An additional liability is recognized, equivalent to the liability in respect of the minimum funding requirement for defined benefit plans when the Corporation does not have an unconditional right to the surplus. The change in the liability recognized during the period is included in the consolidated statement of other comprehensive income.

The expected return on plan assets is based on the fair value of the plan assets and is recognized in income or loss.

Past service costs from plan amendments are deferred and included in income or loss on a straight-line basis over the average remaining period until the benefits become vested. If benefit entitlements vest immediately, the benefit cost is recognized immediately in income or loss.

Defined contribution plans

A defined contribution plan is a post-employment benefit under which an entity pays fixed contributions to an independent entity and will have no legal or constructive obligations to pay further contributions.

Contributions to defined contribution plans are included in employee benefits expense over periods in which the services are rendered by employees.

3. Significant accounting policies (continued)

(y) Earnings per share and information pertaining to number of shares

Basic and diluted earnings per share are presented for common shares, calculated by dividing net income attributable to owners of RONA inc., adjusted for dividends on preferred shares including related taxes, by the weighted average number of common shares outstanding during the period, adjusted by the number of treasury shares.

Diluted earnings per share are calculated taking into account the dilution that would occur if the securities or other agreements for the issuance of common shares were exercised or converted into common shares at the later of the beginning of the period or the issuance date.

(z) Segment information

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses relating to transactions with other components of the Corporation. Results for all segments for which discrete financial information is available are regularly reviewed by the Corporation's President and Chief Executive Officer to make decisions about resources to be allocated to the segments and assess their performance.

In identifying reportable operating segments, management uses differences in products and services offered. Operating segments have been combined because they share economic characteristics, similar products and clients. Revenue from the distribution segment is provided from supply activities to affiliated, franchised and corporate stores. Retail and commercial segment revenue is provided from the sale of various products and services directly to consumers.

The accounting conventions that apply to the operating segments are the same as those described in accounting policies. The Corporation accounts for intersegment operations in the ordinary course of business at fair value.

4. Revenues

	2011	2010
Sales of goods	\$ 4,739,484	\$ 4,748,872
Rendering of services	41,027	44,725
Royalties received	24,073	25,992
Total revenues	\$ 4,804,584	\$ 4,819,589

5. Supplemental information on income and charges

5.1 Operating profit before goodwill impairment and restructuring costs, impairment of non-financial assets and other charges

	2011	2010
Revenues	\$ 4,804,584	\$ 4,819,589
Cost of sales (Note 6)	(3,455,301)	(3,447,768)
Gross profit	1,349,283	1,371,821
Selling, general and administrative expenses	(1,214,082)	(1,172,222)
Net gains on disposal of assets	1,123	3,250
Other income	20,576	20,356
Operating profit before goodwill impairment and restructuring costs, impairment of non-financial asset and other charges	\$ 156,900	\$ 223,205

5.2 Depreciation, amortization and impairment of non-financial assets

	2011	2010
Depreciation of property, plant and equipment	\$ 80,348	\$ 79,837
Depreciation of leasehold property included in property, plant and equipment	1,860	1,711
Amortization of intangible assets	23,831	26,213
Amortization of other non-current assets	877	957
Impairment of non-financial assets (Note 5.4)	42,820	—
Total depreciation, amortization and impairment of non-financial assets	\$ 149,736	\$ 108,718

5.3 Employee benefits expense

	2011	2010
Salaries	\$ 486,928	\$ 445,966
Defined benefit expense (Note 26)	892	640
Defined contribution expense (Note 26)	10,473	10,283
Stock-based compensation expense (recovery) (Note 23)	(2,684)	4,588
Other fringe benefits	105,037	95,851
Total employee benefits expense	\$ 600,646	\$ 557,328

5. Supplemental information on income and charges (continued)

5.4 Restructuring costs, including impairment of non-financial assets and other charges

During the second semester, the Corporation undertook major initiatives to improve its efficiency, optimize its capital structure and increase its return on equity. In this context, the Corporation has established and begun to implement certain aspects of its 2012 business plan.

Following the implementation of this plan, the Corporation recognized operating costs related to the liquidation of store inventory in the amount of \$18,700, an impairment charge for non-financial assets of \$42,820 and other restructuring costs of \$9,823, the latter being the only item requiring a cash outflow substantially all of which was disbursed in 2011. Total restructuring costs, including impairment of non-financial assets and other charges, amounted to \$71,343 for the year ended December 25, 2011.

The Corporation expects to incur an additional restructuring charge during 2012 related to the fulfillment of its business plan. Total restructuring costs including impairment of non-financial assets and other charges, which will be recorded when the recognition criteria is met, are estimated at \$110,000 (Note 32).

6. Inventory

For the year ended December 25, 2011, an amount of \$3,455,301 in inventory was expensed in the consolidated income statement (\$3,447,768 in 2010).

For the year ended December 25, 2011, an inventory write-down charge of \$49,363 (\$24,306 in 2010) of which \$18,700 is included in restructuring costs (Note 5.4) was recognized in the consolidated income statement. No reversal of previous write-downs was recognized.

7. Income tax

Income tax expense

The relationship between the expected tax expense based on the Corporation's effective tax rate 27.31% as at December 25, 2011 (30.04% as at December 26, 2010) and the reported tax expense in income or loss can be reconciled as follows, also showing major components of tax expense:

	2011 As at December 25	2010 As at December 26
Income before income tax expense	\$ (60,910)	\$ 203,538
Corporation's tax rate	27.31 %	30.04 %
Expected tax expense	(16,631)	61,140
Non-deductible costs	324	75
Non-deductible goodwill impairment	29,552	—
Other	618	(498)
Income tax expense	\$ 13,863	\$ 60,717
Current tax expense		
Current tax expense for the period	\$ 30,611	\$ 48,760
Prior period adjustments	24	—
Total current tax expense	\$ 30,635	\$ 48,760
Deferred tax expense		
Recognition and reversal of temporary differences	\$ (17,139)	\$ 11,746
Decrease in tax rate	367	211
Total deferred tax expense	\$ (16,772)	\$ 11,957
Total income tax expense	\$ 13,863	\$ 60,717
Income taxes recognized in other comprehensive income		
	2011 As at December 25	2010 As at December 26
Cash flow hedges		
Before tax	\$ (691)	\$ (1,700)
Deferred tax income	186	483
Net of tax	\$ (505)	\$ (1,217)
Actuarial losses		
Before tax	\$ (3,770)	\$ (3,208)
Deferred tax income	995	856
Net of tax	\$ (2,775)	\$ (2,352)

7. Income tax (continued)

Income tax expense (continued)

The consolidated effective tax rate was a negative rate of 22.76% and a tax rate of 29.83%, respectively, for the years ended December 25, 2011 and December 26, 2010. The change in the effective tax rate is primarily attributable to the change in the Corporation's combined statutory rate and the impairment of non-deductible goodwill.

Deferred tax assets and liabilities

Deferred tax assets and liabilities recognized:

	As at December 25, 2011		
	Assets	Liabilities	Net
Non-capital losses	\$ 13,839	\$ –	\$ 13,839
Capital losses	183	–	183
Direct costs related to business acquisitions	848	–	848
Expenses not deducted	10,655	–	10,655
Property, plant and equipment and intangible assets	24,163	(21,110)	3,053
Goodwill	702	(8,004)	(7,302)
Share issue expenses	1,970	–	1,970
Deferred revenues	6,826	–	6,826
Incentive payments received	–	(2,284)	(2,284)
Pension plans	1,930	(73)	1,857
Derivatives	273	–	273
Other	3,850	(1,288)	2,562
Net deferred tax assets (liabilities)	\$ 65,239	\$ (32,759)	\$ 32,480

	As at December 26, 2010		
	Assets	Liabilities	Net
Non-capital losses	\$ 9,203	\$ –	\$ 9,203
Capital losses	58	–	58
Direct costs related to business acquisitions	81	–	81
Expenses not deducted	9,909	–	9,909
Property, plant and equipment and intangible assets	17,344	(20,407)	(3,063)
Goodwill	380	(9,928)	(9,548)
Share issue expenses	1,216	–	1,216
Deferred revenues	6,241	–	6,241
Incentive payments received	–	(1,638)	(1,638)
Pension plans	1,608	(64)	1,544
Other	2,723	(2,277)	446
Net deferred tax assets (liabilities)	\$ 48,763	\$ (34,314)	\$ 14,449

Changes in temporary differences during the period:

	Balance as at December 26, 2010	Income	Business acquisitions	Other comprehensive income	Other	Balance as at December 25, 2011
Non-capital losses	\$ 9,203	\$ 4,636	\$ –	\$ –	\$ –	\$ 13,839
Capital losses	58	125	–	–	–	183
Direct costs related to business acquisitions	81	767	–	–	–	848
Expenses not deducted	9,909	746	–	–	–	10,655
Property, plant and equipment and intangible assets	(3,063)	7,418	(1,302)	–	–	3,053
Goodwill	(9,548)	2,246	–	–	–	(7,302)
Share issue expenses	1,216	(721)	–	–	1,475	1,970
Deferred revenue	6,241	585	–	–	–	6,826
Incentive payments received	(1,638)	(646)	–	–	–	(2,284)
Pension plans	1,544	(682)	–	995	–	1,857
Derivatives	–	87	–	186	–	273
Other	446	2,211	–	–	(95)	2,562
Net deferred tax assets	\$ 14,449	\$ 16,772	\$ (1,302)	\$ 1,181	\$ 1,380	\$ 32,480

7. Income tax (continued)

Deferred tax assets and liabilities (continued)

Changes in temporary differences during the period (continued):

	Balance as at December 28, 2009	Income	Business acquisitions	Other comprehensive income	Balance as at December 26, 2010
Non-capital losses	\$ 10,107	\$ (2,018)	\$ 1,114	\$ —	\$ 9,203
Capital losses	272	(214)	—	—	58
Direct costs related to business acquisitions	338	(257)	—	—	81
Expenses not deducted	11,576	(1,667)	—	—	9,909
Property, plant and equipment and intangible assets	1,446	(4,219)	(290)	—	(3,063)
Goodwill	(6,576)	(2,972)	—	—	(9,548)
Share issue expenses	1,633	(417)	—	—	1,216
Deferred revenue	5,612	629	—	—	6,241
Incentive payments received	(2,408)	770	—	—	(1,638)
Pension plans	1,694	(1,006)	—	856	1,544
Other	412	(586)	137	483	446
Net deferred tax assets	\$ 24,106	\$ (11,957)	\$ 961	\$ 1,339	\$ 14,449

All deferred tax assets have been recognized in the statement of financial position, including deductible temporary differences, tax losses and unused tax credits.

8. Cash flow information

The changes in working capital items are detailed as follows:

	2011	2010
Trade and other receivables	\$ (69,688)	\$ (6,660)
Inventory	84,183	(121,748)
Prepaid expenses	(2,715)	3,004
Derivative financial instruments	(387)	(197)
Trade and other payables	53,900	1,722
Provisions	1,389	(8,600)
	\$ 66,682	\$ (132,479)

9. Business acquisitions

On December 20, 2011, the Corporation acquired the assets of Centre de Rénovations Mirabel inc., a dealer located in Quebec operating in the retail and commercial segment.

On October 25, 2011, the Corporation acquired the assets of 9202-8950 Québec Inc., a dealer located in Quebec operating in the retail and commercial segment.

On August 2, 2011, the Corporation acquired the assets of Palliser Lumber Sales Ltd, a company located in Alberta operating in the distribution segment.

On June 29, 2011, the Corporation acquired all the shares of Gestion 2HL Inc., a dealer located in Quebec operating in the retail and commercial segment.

On April 11, 2011, the Corporation acquired the assets of Duncan Pacific, located in Vancouver, British Columbia. This dealer, operating in the retail and commercial segment, has four outlets with major lumberyards in Duncan, Nanaimo, Campbell River and Cobble Hill.

On January 31, 2011, the Corporation acquired the assets of La Boutique Plomberie Décoration 25 inc. in Quebec. The company is a retailer of basic and finishing plumbing products. The company operates in the retail and commercial segment.

On January 24, 2011, the Corporation acquired the minority interests in the assets of a store previously held by one of its 51%-owned subsidiaries. This transaction resulted in a \$490 decrease in non-controlling interests with a corresponding change in contributed surplus.

During 2010, the Corporation acquired nine companies in the retail and commercial segment through asset purchases and one company in the distribution segment by way of a share purchase.

The results of operations of these companies are consolidated from their acquisition date.

9. Business acquisitions (continued)

The consideration paid for these acquisitions amounted to \$56,195 (\$136,566 in 2010). Direct acquisition costs of \$666 were recognized in selling, general and administrative expenses for the year ended December 25, 2011 (\$4,062 in 2010). The Corporation financed these acquisitions from its available cash and existing credit facilities.

The preliminary purchase price allocation of these acquisitions was established as follows:

	2011	2010
Trade and other receivables	\$ 6,298	\$ 50,567
Inventory	19,956	60,511
Other current assets	244	3,272
Other financial assets	—	1,959
Property, plant and equipment	30,040	34,386
Goodwill on acquisition	16,777	74,040
Intangible assets	45	5,481
Deferred tax assets	—	849
Current liabilities	(15,251)	(62,924)
Long-term debt	(1,144)	(31,513)
Deferred tax liabilities	(770)	(62)
Cost of acquisitions	56,195	136,566
Less: Issuance of common shares	—	(35,722)
Balances of purchase prices	(8,488)	(20,569)
Cash consideration paid	\$ 47,707	\$ 80,275

The Corporation expects that an amount of \$6,989 (\$8,590 in 2010) of goodwill will be deductible for tax purposes.

The excess of the purchase price over the value of net identifiable items of property, plant and equipment and intangible assets acquired less liabilities assumed is recognized as goodwill and represents expected synergies in connection with the acquisitions.

The preliminary purchase price allocation of the 2011 acquisitions may be subject to adjustment pending completion of the final valuations.

During 2011, as a result of additional information obtained concerning the preliminary purchase price allocation of fourth quarter 2010 acquisitions, the Corporation reduced the goodwill on acquisition by \$1,903 with a corresponding change in property, plant and equipment.

10. Trade and other receivables

	2011 As at December 25	2010 As at December 26	2009 As at December 28
Trade accounts			
Retail and commercial customers	\$ 260,319	\$ 219,345	\$ 161,879
Affiliated and franchised stores	93,927	74,894	73,963
Joint ventures	3,510	3,711	5,475
	357,756	297,950	241,317
Other accounts receivable	12,338	1,939	6,884
	\$ 370,094	\$ 299,889	\$ 248,201

11. Other financial assets

	2011 As at December 25	2010 As at December 26	2009 As at December 28
Companies subject to significant influence			
Shares, at equity value	\$ 4,845	\$ 4,003	\$ 4,495
Preferred shares, at cost, redeemable over 10 years, maturing in 2011	—	80	160
Loans and advances, at cost			
Mortgages and term notes, weighted average rate of 6.7% (5.3% in 2010, 4.6% in 2009), maturing at various dates until 2019	10,240	7,806	9,107
	15,085	11,889	13,762
Other current financial assets	1,468	2,245	2,644
Other non-current financial assets	\$ 13,617	\$ 9,644	\$ 11,118

Interest income related to the loans and advances presented above amounted to \$1,687 (\$1,575 in 2010) and is included in Finance income on the consolidated income statement.

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12. Property, plant and equipment

	Land and parking lots	Buildings	Leasehold improvements	Furniture and equipment	Computer hardware	Projects in process ^(a)	Land for future development	Assets under finance leases Furniture and equipment	Computer hardware	Total
Cost	\$ 271,475	\$ 307,212	\$ 235,077	\$ 397,191	\$ 100,434	\$ 59,132	\$ 37,843	\$ 12,704	\$ 15,428	\$ 1,436,496
Accumulated depreciation	27,820	75,149	115,218	231,288	76,572	1,182	—	9,011	15,212	551,452
Balance, December 26, 2010	243,655	232,063	119,859	165,903	23,862	57,950	37,843	3,693	216	885,044
Depreciation for the period	(2,856)	(12,413)	(16,266)	(39,018)	(9,818)	—	—	(1,650)	(187)	(82,208)
Acquisitions through business combinations	10,950	13,422	3	5,359	306	—	—	—	—	30,040
Other acquisitions	2,448	5,460	7,419	32,202	11,561	9,475	1,633	—	—	70,198
Disposals of property, plant and equipment	(307)	(965)	(109)	(382)	(85)	—	—	(460)	—	(2,308)
Transfers between classes of property, plant and equipment	37,861	32,533	32	2,315	340	(73,113)	71	(39)	—	—
Transfers between property, plant and equipment and non-current assets held for sale	(594)	(1,335)	—	—	—	—	—	—	—	(1,929)
Impairment (Note 5.4)	—	(1,136)	(14,947)	(11,908)	(1,727)	—	—	—	—	(29,718)
Other changes	(8,776)	3,828	22	367	(1,519)	11,815	(102)	(486)	(22)	5,127
Total changes	38,726	39,394	(23,846)	(11,065)	(942)	(51,823)	1,602	(2,635)	(209)	(10,798)
Balance, December 25, 2011	282,381	271,457	96,013	154,838	22,920	6,127	39,445	1,058	7	874,246
Cost	313,063	362,280	245,235	424,364	112,082	6,127	39,445	7,096	1,150	1,510,842
Accumulated depreciation	30,682	90,823	149,222	269,526	89,162	—	—	6,038	1,143	636,596
Balance, December 25, 2011	\$ 282,381	\$ 271,457	\$ 96,013	\$ 154,838	\$ 22,920	\$ 6,127	\$ 39,445	\$ 1,058	\$ 7	\$ 874,246

(a) Projects in process include the costs related to the construction of the buildings which will be used for store operations.

For the year ended December 25, 2011, interest capitalized in property, plant and equipment amounted to \$524 (\$1,689 in 2010). The weighted average rate used in determining borrowing costs that can be capitalized is 5.44% for 2011 (5.54% in 2010).

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12. Property, plant and equipment (continued)

							Assets under finance leases			
	Land and parking lots	Buildings	Leasehold improvements	Furniture and equipment	Computer hardware	Projects in process ^(a)	Land for future development	Furniture and equipment	Computer hardware	Total
Cost	\$ 207,872	\$ 276,215	\$ 199,846	\$ 358,615	\$ 102,022	\$ 64,505	\$ 75,491	\$ 15,076	\$ 20,198	\$1,319,840
Accumulated depreciation	21,509	56,992	100,174	208,742	76,762	1,019	—	8,227	18,532	491,957
Balance, December 28, 2009	186,363	219,223	99,672	149,873	25,260	63,486	75,491	6,849	1,666	827,883
Depreciation for the period	(4,888)	(11,380)	(17,883)	(34,368)	(10,922)	(163)	—	(1,239)	(705)	(81,548)
Acquisitions through business combinations	12,395	12,512	1,846	6,145	1,453	35	—	—	—	34,386
Other acquisitions	905	3,451	9,618	31,813	7,684	44,195	7,258	—	—	104,924
Finance leases	—	—	—	—	—	—	—	176	—	176
Disposals of property, plant and equipment	(454)	(308)	(786)	(715)	(304)	(125)	—	(8)	(1)	(2,701)
Transfers between classes of property, plant and equipment	55,917	9,253	29,104	2,777	(97)	(49,657)	(46,828)	(530)	61	—
Transfers between property, plant and equipment and non-current assets held for sale	—	—	—	—	—	—	(5,894)	—	—	(5,894)
Other changes	(6,583)	(688)	(1,712)	10,378	788	179	7,816	(1,555)	(805)	7,818
Total changes	57,292	12,840	20,187	16,030	(1,398)	(5,536)	(37,648)	(3,156)	(1,450)	57,161
Balance, December 26, 2010	243,655	232,063	119,859	165,903	23,862	57,950	37,843	3,693	216	885,044
Cost	271,475	307,212	235,077	397,191	100,434	59,132	37,843	12,704	15,428	1,436,496
Accumulated depreciation	27,820	75,149	115,218	231,288	76,572	1,182	—	9,011	15,212	551,452
Balance, December 26, 2010	\$ 243,655	\$ 232,063	\$ 119,859	\$ 165,903	\$ 23,862	\$ 57,950	\$ 37,843	\$ 3,693	\$ 216	\$ 885,044

(a) Projects in process include the costs related to the construction of the buildings which will be used for store operations and distribution centres.

13. Non-current assets held for sale

The Corporation intends to dispose of non-current assets held for sale within one year. These are primarily land and buildings in the retail and commercial store segment which are no longer used in operations and for which the Corporation has established a detailed plan to sell.

The change in non-current assets held for sale is as follows:

	2011 As at December 25
Balance at beginning	\$ 16,474
Additions	5,632
Disposals	(7,948)
Impairment	—
Reclassification to property, plant and equipment	(3,703)
Balance at end	\$ 10,455
	2010 As at December 26
Balance at beginning	\$ 11,080
Additions	10,184
Disposals	(500)
Impairment	—
Reclassification to property, plant and equipment	(4,290)
Balance at end	\$ 16,474

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13. Non-current assets held for sale (continued)

	2011 As at December 25	2010 As at December 26	2009 As at December 28
Non-current assets held for sale			
Land	\$ 9,392	\$ 15,427	\$ 9,713
Buildings	1,063	1,047	1,367
	\$ 10,455	\$ 16,474	\$ 11,080

14. Goodwill

	2011 As at December 25
Balance at beginning	\$ 529,094
Acquisition through business combinations (Note 9)	16,777
Impairment	(117,000)
Adjustment related to the purchase price allocation of a 2010 acquisition (Note 9)	(1,903)
Balance at end	\$ 426,968

	2010 As at December 26
Balance, December 28, 2009	\$ 455,572
Acquisition through business combinations (Note 9)	74,040
Disposals	(518)
Balance, December 26, 2010	\$ 529,094

For the purpose of the annual impairment testing, goodwill is allocated to the following CGU group, which are the groups of units expected to benefit from the synergies of the business combinations:

	2011 As at December 25	2010 As at December 26	2009 As at December 28
Corporate and franchised stores	\$ 187,056	\$ 299,993	\$ 254,856
Commercial and professional stores	130,416	126,726	116,167
Distribution	109,496	102,375	84,549
Goodwill allocation	\$ 426,968	\$ 529,094	\$ 455,572

The Corporation performed its annual test for goodwill impairment as at December 25, 2011. The carrying amount of the CGU groups has been determined using the value in use. To determine value in use, five-year cash flow forecasts were prepared using the budget and strategic plan approved by the Board of Directors. Cash flow forecasts for periods beyond that of the budget and strategic plan were prepared using a stable growth rate for future periods, not exceeding the rate of long term average growth of the Corporation's sectors of activity. These forecasts were based on historical data and future trends expected by the Corporation.

For the impairment test carried out as at December 25, 2011, management's key assumptions were average annual increases in same-store sales of 2.25% (average of 3.0% as at December 26, 2010) for the first five years and thereafter (2.5% as at December 26, 2010).

The Corporation's valuation model also takes account of working capital and capital investments to maintain the condition of the assets of each group of CGU.

Forecasted cash flows are discounted using pre-tax rates ranging from 11.8% to 11.9% (11.9% to 13.0% as at December 26, 2010) which reflect current market assessments of the time value of money and the risks specific to the asset.

As the Corporation's strategic plan evolves, the Corporation regularly reviews the allocation of net assets and corporate assets between CGU groups. In 2011, the Corporation changed the classification of part of goodwill and some corporate assets. Comparable amounts reflect this reclassification.

Based on its impairment test, the fair value of the corporate and franchise store CGU group was less than its carrying amount. As a result, and considering the difficult market conditions, the Corporation recognized a goodwill impairment loss of \$117,000 in respect of this CGU group.

In addition to its various programs already in effect to enhance sales in the corporate and franchise store sector, as part of its business plan 2012, the Corporation has prepared a new strategy focussing on improving efficiency, optimizing the capital structure and increasing the return on capital. This is a critical sector for the Corporation and in 2012 sustained efforts has been and will be deployed to improve this sector's profitability.

The fair value of the other groups of CGUs was higher than their carrying amount. The sensitivity analysis indicated that no reasonably possible changes in the assumptions would cause the carrying amount of each group of CGU to exceed its recoverable amount.

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15. Intangible assets

	Trademarks – useful life		Software	Dealer recruitment costs	Customer relationships	Preferential price leases	Total
	Finite	Indefinite					
Cost	\$ 2,174	\$ 2,721	\$ 216,281	\$ 24,658	\$ 450	\$ 418	\$ 246,702
Accumulated amortization	1,574	–	103,027	13,540	180	158	118,479
Balance, December 26, 2010	600	2,721	113,254	11,118	270	260	128,223
Amortization for the period	(227)	–	(19,262)	(4,129)	(22)	(191)	(23,831)
Acquisitions through business combinations	–	–	45	–	–	–	45
Other acquisitions	–	–	33,578	5,647	–	–	39,225
Impairment (Note 5.4)	–	(207)	(12,895)	–	–	–	(13,102)
Other changes	–	–	(1,654)	(1,938)	–	–	(3,592)
Total changes	(227)	(207)	(188)	(420)	(22)	(191)	(1,255)
Balance, December 25, 2011	373	2,514	113,066	10,698	248	69	126,968
Cost	2,174	2,514	242,671	23,341	450	418	271,568
Accumulated amortization	1,801	–	129,605	12,643	202	349	144,600
Balance, December 25, 2011	\$ 373	\$ 2,514	\$ 113,066	\$ 10,698	\$ 248	\$ 69	\$ 126,968

	Trademarks – useful life		Software	Dealer recruitment costs	Customer relationships	Preferential price leases	Total
	Finite	Indefinite					
Cost	\$ 2,174	\$ 2,321	\$ 165,730	\$ 20,293	\$ –	\$ –	\$ 190,518
Accumulated amortization	1,348	–	74,037	8,976	–	–	84,361
Balance, December 28, 2009	826	2,321	91,693	11,317	–	–	106,157
Amortization for the period	(226)	–	(21,261)	(4,564)	(4)	(158)	(26,213)
Acquisitions through business combinations	–	400	4,389	–	274	418	5,481
Other acquisitions	–	–	36,994	4,365	–	–	41,359
Other changes	–	–	1,439	–	–	–	1,439
Total changes	(226)	400	21,561	(199)	270	260	22,066
Balance, December 26, 2010	600	2,721	113,254	11,118	270	260	128,223
Cost	2,174	2,721	216,281	24,658	450	418	246,702
Accumulated amortization	1,574	–	103,027	13,540	180	158	118,479
Balance, December 26, 2010	\$ 600	\$ 2,721	\$ 113,254	\$ 11,118	\$ 270	\$ 260	\$ 128,223

Amortization

Amortization of intangible assets is included in depreciation, amortization and impairment of non-financial assets in the consolidated income statement.

For the year ended December 25, 2011, capitalized interest on software amounted to \$800 (\$715 in December 26, 2010) and the weighted average rate used in determining borrowing costs to be capitalized was 5.44% (5.54% in December 2010).

Intangible assets with indefinite useful lives

These assets are comprised of trademarks designated as such according to the following criteria:

- Long-term return outlook
- Age of the trademark
- Global positioning of the trademark in its market in terms of volume of activity and awareness.

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16. Other non-current assets

	2011 As at December 25	2010 As at December 26	2009 As at December 28
Revolving credit financing costs	\$ 3,199	\$ 1,540	\$ 2,432
Defined benefit assets (Note 26)	1,940	1,386	1,630
Other	296	319	344
Balance, end of period	\$ 5,435	\$ 3,245	\$ 4,406

Amortization of other non-current assets, included in depreciation, amortization and impairment of non-financial assets in the consolidated income statement, amounts to \$877 for the year ended December 25, 2011 (\$957 in 2010).

17. Bank loans
a) Other subsidiaries

Bank loans are secured by an assignment of certain assets, notably trade and other receivables, inventory and property, plant and equipment, in the amount of \$32,423 (\$32,570 in 2010). These bank loans bear interest at rates varying from prime rate to prime rate plus 0.50% and are renewable annually. As at December 25, 2011, the interest rates varied from 3.00% to 3.50% (3.00% to 3.50% in 2010). The amount authorized for these credit facilities is \$19,060 (\$16,660 in 2010) and the amount used is \$4,795 (\$1,500 in 2010).

b) Joint ventures

Bank loans are secured by an assignment of certain assets of joint ventures, notably trade and other receivables, inventory and property, plant and equipment. The Corporation's share of these assets amounts to \$5,510 (\$5,841 in 2010). These bank loans bear interest at rates varying from prime rate to prime rate plus 0.50% and are renewable annually. As at December 25, 2011, the interest rates varied from 3.00% to 3.50% (3.00% to 3.50% in 2010). The amount authorized for these credit facilities is \$11,500 (\$10,000 in 2010) and the amount used is \$2,605 (\$443 in 2010).

18. Long-term debt

	2011 As at December 25	2010 As at December 26	2009 As at December 28
Debentures, unsecured, par value \$116,829, rate of 5.40%, maturing in 2016 ^(a)	\$ 116,068	\$ 396,967	\$ 396,564
Credit facilities, at a weighted average rate of 2.47%, maturing in 2016	91,249	—	—
Mortgage loans, secured by assets having a non-depreciated cost of \$90,943 (\$101,190 in 2010 and \$66,300 in 2009), rates varying from prime rate less 0.25% to 8.50% in 2011 (prime rate less 0.25% to 8.50% in 2010 and 2009), maturing on various dates until 2020	26,107	42,391	33,561
Obligations under finance leases, rates varying from 4.19% to 10.60% (3.97% to 12.40% in 2010 and 2.90% to 12.40% in 2009), maturing on various dates until 2017	1,592	3,557	6,953
Balances of purchase prices, varying from 0.00% to 6.00% (0.00% to 6.00% in 2010, prime rate less 1.00% to 3.00% in 2009), payable on various dates until 2015	16,314	20,569	442
Shares issued and fully paid			
1,000,000 Class D preferred shares (2,000,000 shares in 2010 and 3,000,000 shares in 2009) ^(b)	1,000	2,000	3,000
	252,330	465,484	440,520
Instalments due within one year	20,257	21,151	9,996
	\$ 232,073	\$ 444,333	\$ 430,524

(a) Effective rate of 5.55%.

(b) During the year, the Corporation redeemed 1,000,000 shares (1,000,000 shares in 2010 and 2009) for a cash consideration of \$1,000 (\$1,000 in 2010 and 2009).

Debentures

On November 3, 2011 the Corporation announced an offer to purchase (conducted as a modified "Dutch Auction"), by way of two successive offers each of which is open for a distinct period of time, up to \$200,000 maximum par value of its 5.40% debentures maturing October 20, 2016. On November 22, 2011, the Corporation increased the initial \$200,000 maximum par value to a maximum par value of \$300,000 of its debentures for the first purchase offer.

On November 28, 2011, the Corporation redeemed 5.40% debentures due in 2016 by way of the first purchase offer, with a par value of \$283,171 for a consideration of \$289,608 plus an additional amount of \$5,613 in accrued interest. The purchase was paid cash from the Corporation's cash resources and credit facilities. Accrued interest and the redemption premium are recognized in finance costs in the consolidated income statement.

Given the successful expiration of the first offer, the second offer was withdrawn.

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18. Long-term debt (continued)**Revolving credit**

On December 23, 2011, the Corporation concluded the renewal of its existing credit facility for a five-year period. This facility, which was to mature in 2012, has been renewed to 2016 and the total available amount has been increased from \$650,000 to \$950,000. The premium on the base interest rate and borrowing costs varies in accordance with the credit rating assigned to the unsecured debentures.

Credit facilities can be used to issue letters of guarantee and credit letters for imports. As at December 25, 2011, the letters of guarantee issued amount to \$1,216 (\$1,309 in 2010). For the year 2011, the weighted average interest rate on the revolving credit is 2.2% (2.9% in 2010).

The Corporation is required to meet certain financial ratios. During the years ended December 25, 2011 and December 26, 2010 as well as at the 2011 and 2010 financial year-ends, the Corporation is in compliance with these requirements.

Letters of credit

The Corporation also has an unsecured credit facility up to an amount of \$55,000, utilized for the issuance of letters of credit for imports. The terms and conditions to be respected are the same as for the revolving credit. As at December 25, 2011, the amount used is \$40,046 (\$32,360 in 2010).

Maturities for obligations under finance leases are as follows:

	2011		
	Future minimum lease payments	Interest	Value of the future minimum lease payments
Less than 1 year	\$ 851	\$ 91	\$ 760
Between 1 – 5 years	925	122	803
Over 5 years	30	1	29
	\$ 1,806	\$ 214	\$ 1,592

	2010		
	Future minimum lease payments	Interest	Value of the future minimum lease payments
Less than 1 year	\$ 2,024	\$ 67	\$ 1,957
Between 1 – 5 years	1,505	51	1,454
Over 5 years	151	5	146
	\$ 3,680	\$ 123	\$ 3,557

The instalments on other long-term debt and share repurchases for the next years are as follows:

	2011	2010	2009
	As at December 25	As at December 26	As at December 28
Less than 1 year	\$ 17,881	\$ 19,227	\$ 6,395
Between 1 – 5 years	135,860	34,815	26,155
Over 5 years	5,748	410,918	404,663
	\$ 159,489	\$ 464,960	\$ 437,213

19. Other non-current liabilities

	2011	2010	2009
	As at December 25	As at December 26	As at December 28
Deferred lease obligations due to straight-line basis	\$ 25,521	\$ 22,943	\$ 19,993
Defined benefit liability (Note 26)	8,132	7,658	7,866
Balance at end	\$ 33,653	\$ 30,601	\$ 27,859

20. Provisions and contingent liabilities

	Litigation	Onerous contracts	Product warranties	Total
Balance, December 26, 2010	\$ 3,222	\$ 5,757	\$ 185	\$ 9,164
Provisions created during the period	3,006	368	1,153	4,527
Provisions used during the period	(1,098)	(638)	(59)	(1,795)
Provisions reversed during the period	(1,338)	—	(228)	(1,566)
Accretion expense	—	223	—	223
Balance, December 25, 2011	3,792	5,710	1,051	10,553
Current	3,792	2,104	1,051	6,947
Non-current	—	3,606	—	3,606
	\$ 3,792	\$ 5,710	\$ 1,051	\$ 10,553

	Litigation	Onerous contracts	Product warranties	Total
Balance, December 28, 2009	\$ 3,004	\$ 14,340	\$ 420	\$ 17,764
Provisions created during the period	2,887	1,923	2,003	6,813
Provisions used during the period	(887)	(7,994)	(1,377)	(10,258)
Provisions reversed during the period	(1,782)	(2,944)	(861)	(5,587)
Accretion expense	—	432	—	432
Balance, December 26, 2010	3,222	5,757	185	9,164
Current	3,222	1,218	185	4,625
Non-current	—	4,539	—	4,539
	\$ 3,222	\$ 5,757	\$ 185	\$ 9,164

Litigation

Various claims and litigation arise in the course of the Corporation's activities and its insurers have taken up the Corporation's defence in some of these cases.

The litigation period depends on the negotiation procedures. Provisions are recognized based on best estimates of the resolution of the litigation. Management does not expect that the outcome of these claims and litigation will have a material and adverse effect on the Corporation's results and deemed its allowances adequate in this regard.

Onerous contracts

In 2008, the Corporation's management approved a detailed closure plan for two stores in the retail and commercial segment. One store was closed during 2008 and the second during the second quarter of 2009. Following the closure, a provision for onerous contracts was recognized for non-cancellable operating leases for commercial stores which are no longer used at a 4.65% discount rate (5.50% in 2010). The provisions were estimated using market data and contractual obligations at the time of initial recognition. In 2010, an agreement was reached with one lessor to cancel the lease. The lease still in effect expires in 2024.

21. Guarantees, commitments and contingencies

Guarantees

In the ordinary course of business, the Corporation reaches agreements that could meet the definition of "guarantees".

The Corporation guarantees mortgages for an amount of \$1,257. The terms of these loans extend until 2012 and the net carrying amount of the assets held as security, which mainly include land and buildings, is \$5,389.

Pursuant to the terms of inventory repurchase agreements, the Corporation is committed towards financial institutions to buy back the inventory of certain customers at an average of 64% of the cost of the inventories to a maximum of \$44,961. In the event of recourse, this inventory would be sold in the ordinary course of the Corporation's operations. These agreements have undetermined periods but may be cancelled by the Corporation with a 30-day advance notice. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low.

Commitments

The Corporation has entered into operating lease agreements expiring until 2021 which call for lease payments of \$59,781 for the rental of automotive equipment, computer hardware, distribution equipment, a warehouse and the building housing the head office and the distribution centre in Quebec.

The Corporation has also entered into operating lease agreements expiring until 2030 for corporate store space for minimum lease payments of \$931,880.

As part of the operation of big-box stores with dealer-owners, the Corporation is initially involved as a primary tenant and then signs a subleasing agreement with the dealer-owners. In this respect, the Corporation is committed under agreements expiring until 2023 which call for minimum lease payments of \$56,851 for the rental of premises and land on which the Corporation erected a building. In consideration thereof, the Corporation has signed subleasing agreements for an equivalent amount.

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21. Guarantees, commitments and contingencies (continued)**Commitments (continued)**

During 2011, the Corporation signed a three-year partnership with Canucks Sport & Entertainment wherein the Corporation has committed to pay \$3,470 due in 2014.

The minimum lease payments and minimum amounts receivable under operating lease agreements and other commitments for the next years are as follows:

	2011	
	Minimum lease payments	Minimum amounts receivable
Less than 1 year	\$ 139,813	\$ 8,856
Between 1 – 5 years	465,248	27,598
Over 5 years	446,921	20,680
	\$ 1,051,982	\$ 57,134

	2010	
	Minimum lease payments	Minimum amounts receivable
Less than 1 year	\$ 125,411	\$ 10,077
Between 1 – 5 years	413,031	35,368
Over 5 years	510,364	26,501
	\$ 1,048,806	\$ 71,946

The Corporation leases several buildings for its stores as operating leases, the majority of which are non-cancellable. The leases are usually for a term of 20 years and have a renewal clause at the market rates prevailing at that time.

In 2005, the Corporation entered into an eight-year partnership agreement for Olympic and Paralympic sponsorship valued at \$60,000. Moreover, in 2006 the Corporation committed an additional amount of \$7,000 to financial support programs for athletes. As at December 25, 2011, the balance due on these agreements is \$1,900, payable in 2012.

Contingencies

Various claims and litigation arise in the course of the Corporation's activities and its insurers have taken up the Corporation's defence in some of these cases. In addition, upon the acquisition of Réno-Dépôt Inc., the vendor committed to indemnify the Corporation for litigation which the Corporation assumed in the course of this acquisition.

Management does not expect that the outcome of these claims and litigation will have a material and adverse effect on the Corporation's results and deemed its allowances adequate in this regard.

22. Share capital**Authorized**

Unlimited number of shares

Common without par value

Class A preferred shares, without par value, issuable in series

Series 5, non-cumulative dividend equal to 70% of prime rate, redeemable, at the Corporation's option, at their issuance price

Series 6, cumulative dividend of 5.25%, subject to approval by the Board of Directors, fixed for the first five years, redeemable, at the Corporation's option, at their issuance price

Series 7, annual cumulative dividend at variable rate, redeemable, at the Corporation's option, at their issuance price

Class B preferred shares, 6% non-cumulative dividend, redeemable, at the Corporation's option, at their par value of \$1 each

Class C preferred shares, issuable in series

Series 1, non-cumulative dividend equal to 70% of prime rate, redeemable, at the Corporation's option, at their par value of \$1,000 each

Class D preferred shares, without par value, 4% cumulative dividend, redeemable, at the Corporation's option, at their issuance price. Since 2003, they are redeemable at their issuance price over a maximum period of ten years on the basis of 10% per year and are included in long-term debt (Note 18)

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22. Share capital (continued)
Issued and fully paid:

The following table presents changes in the number of outstanding shares and their carrying amounts:

	Common shares		Preferred shares ^(b)		Treasury shares		Deposits on common share subscriptions ^(a)		Share capital	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance, December 26, 2010	130,071,782	\$ 630,264	—	\$ —	(73,334)	\$ (424)	—	\$ 2,774	129,998,448	\$ 632,614
Issuance in exchange for cash	49,499	550	6,900,000	172,500	—	—	—	—	6,949,499	173,050
Issuance under stock option plans	255,525	1,770	—	—	—	—	—	—	255,525	1,770
Issuance in exchange for common share subscription deposits	193,683	2,749	—	—	(3,647)	(51)	—	(2,698)	190,036	—
Repurchase of common shares	(3,370,300)	(16,399)	—	—	—	—	—	—	(3,370,300)	(16,399)
Deposits on common share subscriptions received	—	—	—	—	—	—	—	2,456	—	2,456
Deposits on common share subscriptions refunded	—	—	—	—	—	—	—	(75)	—	(75)
Balance, December 25, 2011	127,200,189	\$ 618,934	6,900,000	\$ 172,500	(76,981)	\$ (475)	—	\$ 2,457	134,023,208	\$ 793,416

(a) Deposits on common share subscriptions represent amounts received during the year from affiliated and franchised merchants in accordance with commercial agreements. These deposits are exchanged for common shares on an annual basis. If the subscription deposits had been exchanged for common shares as at December 25, 2011, the number of outstanding common shares would have increased by 261,886.

(b) Class A preferred shares, Series 6 (Note 24).

The following table presents changes in the number of outstanding shares and their carrying amounts:

	Common shares		Treasury shares		Deposits on common share subscriptions ^(a)		Share capital	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance, December 28, 2009	129,653,383	\$ 600,459	(80,251)	\$ (524)	—	\$ 3,821	129,573,132	\$ 603,756
Issuance in exchange for cash	27,895	370	—	—	—	—	27,895	370
Issuance under stock option plans	139,525	661	—	—	—	—	139,525	661
Issuance as payment for a business acquisition	2,230,067	35,722	—	—	—	—	2,230,067	35,722
Issuance in exchange for common share subscription deposits	250,979	3,842	(3,381)	(51)	—	(3,791)	247,598	—
Repurchase of common shares	(2,230,067)	(10,790)	—	—	—	—	(2,230,067)	(10,790)
Deposits on common share subscriptions received	—	—	—	—	—	2,772	—	2,772
Deposits on common share subscription refunded	—	—	—	—	—	(28)	—	(28)
Other	—	—	10,298	151	—	—	10,298	151
Balance, December 26, 2010	130,071,782	\$ 630,264	(73,334)	\$ (424)	—	\$ 2,774	129,998,448	\$ 632,614

(a) Deposits on common share subscriptions represent amounts received during the year from affiliated and franchised merchants in accordance with commercial agreements. These deposits are exchanged for common shares on an annual basis. If the subscription deposits had been exchanged for common shares as at December 26, 2010, the number of outstanding common shares would have increased by 199,123.

On November 8, 2011, the Board of Directors approved a normal course issuer bid to repurchase for cancellation, from November 11, 2011 to November 10, 2012, up to 11,016,854 common shares representing 10% of its 110,168,541 floating shares, i.e. 8.4% of its 130,520,489 issued and outstanding common shares as at October 31, 2011.

Under this issuer bid, the repurchases will be made at market prices through the Toronto Stock Exchange. The Corporation ceases to consider shares as outstanding on the date of the Corporation's repurchase of its shares although the actual cancellation of the shares by the transfer agent and registrar occurs on a timely basis on a date shortly thereafter.

During the year ended December 25, 2011, the Corporation redeemed for cancellation a total of 3,370,300 common shares for a total cost of \$31,768. Of the total cost, \$16,399 represents the stated value of common shares. The remaining \$15,369 was recorded in retained earnings.

23. Stock-based compensation

Stock option plans

Stock option plan of May 1, 2002

On May 1, 2002, the Corporation adopted a stock option plan for designated senior executives pursuant to which options for a maximum of 3,740,000 common shares may be granted. Options granted under the plan may be exercised since the Corporation made a public share offering on November 5, 2002. As at December 25, 2011, the exercise price of the 2,920,000 options granted upon adoption of the plan is \$3.47 and of this number, a total of 1,960,000 options were exercised (1,770,500 options in 2010). The fair value of each option granted was estimated at the grant date using the Black-Scholes option pricing model.

No compensation cost was expensed with respect to this plan for the year ended December 25, 2011 and December 26, 2010.

Stock option plan of October 24, 2002

Since October 24, 2002, the Corporation has another stock option plan for designated senior executives of the Corporation and for certain designated directors. The total number of common shares which may be issued pursuant to the plan will not exceed 10% of the common shares issued and outstanding less the number of shares subject to options granted under the stock option plan of May 1, 2002. These options become vested at 25% per year, if the market price of the common share has traded, for at least 20 consecutive trading days during the twelve-month period preceding the grant anniversary date, at a price equal to or higher than the grant price plus a premium of 8% compounded annually.

Modifications were adopted by the Board of Directors on March 8, 2007, whereby the most appropriate terms and conditions relative to each type of grant could be adopted. Since March 8, 2007, the Board has approved option grants with vesting over a 4-year period following the anniversary date of the grants at 25% per year. In addition as a result of these modifications, the plan is no longer applicable to the designated directors of the Corporation.

As at December 25, 2011, the 3,242,352 options granted (2,857,452 options in 2010) have exercise prices ranging from \$9.97 to \$26.87 in 2011 (\$10.62 to \$26.87 in 2010) and of this number, 172,425 options have been exercised (106,400 options in 2010), 619,758 options have expired (same number of options in 2010) and 835,994 options have been forfeited (553,000 options in 2010).

The weighted average fair value of stock options granted of \$4.64 for the year ended December 25, 2011 (\$4.57 in 2010) was estimated for each option tranche at the grant date using the Black-Scholes option pricing model on the basis of the following weighted average assumptions for the options granted during the period:

	2011	2010
Share price at date of grant	\$13.61	\$15.61
Risk-free interest rate	1.67 to 3.35 %	1.83 to 2.90 %
Expected share price volatility	27.60 to 28.13 %	28.45 to 31.58 %
Expected dividend rate	1.00 to 1.39 %	0 %
Expected life	7 to 10 years	3 to 6 years
Exercise price at date of grant	\$13.65	\$15.44

The expected volatility is estimated for each award tranche, taking into account the average historical volatility of the share price over the expected term of the options granted.

Compensation cost expensed with respect to this plan amounts to \$1,034 for the year ended December 25, 2011 (\$1,214 in 2010).

A summary of the situation of the Corporation's stock option plans and the changes that occurred during the period is presented below:

	As at December 25, 2011	
	Options	Weighted average exercise price
Outstanding, beginning of period	2,727,794	\$ 9.99
Granted	384,900	13.65
Exercised	(255,525)	5.77
Forfeited	(282,994)	15.74
Outstanding, end of period	2,574,175	10.32
Options exercisable, end of period	1,824,200	\$ 9.05

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23. Stock-based compensation (continued)
Stock option plans (continued)

	As at December 26, 2010	
	Options	Weighted average exercise price
Outstanding, beginning of period	2,966,852	\$ 10.47
Granted	381,700	15.44
Exercised	(139,525)	4.30
Expired	(331,758)	21.53
Forfeited	(149,475)	13.04
Outstanding, end of period	2,727,794	9.99
Options exercisable, end of period	1,968,644	\$ 8.57

The weighted average price of the common shares acquired by option holders having exercised 255,525 options (139,525 options in 2010) for the year ended December 25, 2011 is \$11.62 (\$15.40 in 2010).

The following table summarizes information relating to stock options outstanding as at December 25, 2011:

Exercise price	Expiration date	Options outstanding	Options exercisable
\$ 3.47	January 1, 2012 ^(a)	960,000	960,000
\$ 9.97	September 21, 2021	60,000	–
\$ 10.62	March 11, 2019	352,350	177,700
\$ 14.18	March 1, 2018	142,675	107,775
\$ 14.29	December 16, 2013	328,700	328,700
\$ 14.33	March 7, 2021	278,900	–
\$ 15.44	March 9, 2020	273,025	71,500
\$ 20.27	December 22, 2014	74,750	74,750
\$ 23.58	March 8, 2017	103,775	103,775
		2,574,175	1,824,200

- (a) On December 29, 2011, the Toronto Stock Exchange authorized the Corporation to change the expiration date of the outstanding options under this plan, which extended the option expiration date by 10 business days as of the end of the Corporation's self-imposed blackout period.

Share unit plan for officers

The Corporation offers a share unit plan to officers and key employees of the Corporation and its subsidiaries under which restricted share units (RSUs) are granted. The RSUs are vested over a maximum term of three years based on performance targets and passage of time. The RSUs are recognized as compensation expense on a straight-line basis over the vesting period.

The RSUs are revalued at fair market value at the end of each reporting period until the vesting date using the market price of the Corporation's common shares. Fair market value changes are accounted for as compensation expense with a corresponding charge to trade and other payables in the consolidated statement of financial position. RSUs that have been vested will be payable, at the Corporation's option, in cash or common shares, purchased on the secondary market, with an aggregate value equal to the amount that would have been paid in cash.

	2011 As at December 25	2010 As at December 26
Number of restricted share units:		
Outstanding, beginning of period	935,325	682,540
Granted	419,000	449,725
Expired	(113,000)	(66,340)
Forfeited	(115,684)	(130,600)
Paid	(8,416)	–
Outstanding, end of period	1,117,225	935,325

For the year ended December 25, 2011, a reversal of \$3,968 was recorded in the consolidated income statement (expense of \$2,805 in 2010).

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23. Stock-based compensation (continued)**Share unit plan for directors**

The Corporation offers a deferred share unit (DSU) plan for external directors. Under this plan, directors may elect to receive in the form of DSUs any percentage up to 100% of their fees payable in respect of serving as director.

When a director elects to participate in this plan, the Corporation credits the director's account for a number of units equal to the deferred compensation divided by the average closing market price of the common shares of the Corporation during the five trading days immediately preceding the last day of each reporting period of the Corporation. Fair market value changes are accounted for as a compensation expense with a corresponding charge to trade and other payables in the consolidated statement of financial position. DSUs granted under this plan will be redeemable and the value of the units will be payable only when the unit holder ceases to be a director.

	2011 As at December 25	2010 As at December 26
Number of deferred share units		
Balance, beginning of year	172,781	149,139
Granted	77,877	50,173
Paid	(15,690)	(26,531)
Balance, end of year	234,968	172,781

The expense recorded in the consolidated income statement for the year ended December 25, 2011 amounts to \$250 (\$569 in 2010).

24. Capital disclosures

The Corporation maintains a level of capital that is sufficient to meet several objectives, including an acceptable total debt-to-capital ratio to provide access to adequate funding sources to support current operations and fulfilment of its business plan.

Total net debt includes bank loans and long-term debt less cash. The Corporation's capital includes total net debt and equity.

As at December 25, 2011, the Corporation's net debt-to-capital ratio is 10.91% (17.01% in 2010).

The Corporation manages its capital structure and makes adjustments in light of changes in activities, economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust its capital structure, the Corporation may issue new shares, repurchase its shares for cancellation or sell assets to reduce debt.

Dividends on common share

On December 7, 2010, the Board of Directors approved a dividend policy under which a cash dividend will be payable on a semi-annual basis to holders of common shares when declared. The first payment, a seven cent (\$0.07) per share dividend declared on December 7, 2010, was paid on March 25, 2011 to shareholders of record on March 10, 2011.

This dividend policy is reviewed by the Board of Directors from time-to-time in light of the Corporation's cash flows, earnings, financial position and other relevant factors.

At its August 9, 2011 meeting, RONA's Board of Directors declared a semi-annual dividend of \$0.07 per common share, which was paid on September 26, 2011 to shareholders of record on September 10, 2011.

Dividends on preferred shares

During the first quarter of 2011, RONA issued Series 6, Class A preferred shares for total gross proceeds of \$172,500. The first dividend of \$0.4603 per share was paid on June 30, 2011 to shareholders of record on June 15, 2011.

At its August 9, 2011 meeting, RONA's Board of Directors declared a cumulative quarterly dividend of \$0.3308 per share on the Series 6, Class A preferred shares, adjusted every five years. The dividend was paid on September 30, 2011 to shareholders of record on September 15, 2011.

At its November 8, 2011 meeting, RONA's Board of Directors declared a cumulative quarterly dividend of \$0.3308 per share on the Series 6, Class A preferred shares, adjusted every five years. This dividend was paid on January 4, 2012 to shareholders of record on December 16, 2011.

This dividend policy is reviewed by the Board of Directors from time-to-time in light of the Corporation's cash flows, earnings, financial position and other relevant factors.

Credit facilities

The Corporation's credit facilities include certain covenants affecting, among others, the leverage ratio and the interest coverage ratios. These ratios are submitted to the Board of Directors each quarter. The Corporation is in compliance with the ratios for the years ended December 25, 2011 and December 26, 2010. Other than covenants related to its credit facilities, the Corporation is not subject to any other externally imposed capital requirements.

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25. Financial instruments and risk management

The carrying amounts and fair values of financial instruments are as follows:

	As at December 25, 2011	
	Carrying amount	Fair value
Loans and receivables		
Cash	\$ 17,149	\$ 17,149
Trade and other receivables	370,094	370,094
Loans and advances (Note 11)	10,240	10,233
Other financial liabilities		
Bank loans	4,377	4,377
Trade and other payables	487,864	487,864
Dividends payable	2,527	2,527
Debentures (Note 18)	116,068	113,816
Obligations under finance leases (Note 18)	1,592	1,592
Mortgage loans and balances of purchase prices (Note 18)	42,421	41,501
Credit facility (Note 18)	91,249	91,249
Preferred shares (Note 18)	1,000	1,000
Financial liabilities at fair value designated as cash flow hedges		
Derivative financial instruments	691	691
	As at December 26, 2010	
	Carrying amount	Fair value
Loans and receivables		
Cash	\$ 75,577	\$ 75,577
Trade and other receivables	299,889	299,889
Loans and advances (Note 11)	7,806	7,844
Other financial liabilities		
Bank loans	1,943	1,943
Trade and other payables	454,166	454,166
Dividends payable	9,119	9,119
Debentures (Note 18)	396,967	421,800
Obligations under finance leases (Note 18)	3,557	3,557
Mortgage loans and balances of purchase prices (Note 18)	62,960	64,517
Preferred shares (Note 18)	2,000	2,000
Financial liabilities at fair value designated as cash flow hedges		
Derivative financial instruments	1,653	1,653
	As at December 28, 2009	
	Carrying amount	Fair value
Loans and receivables		
Cash	\$ 239,257	\$ 239,257
Trade and other receivables	248,201	248,201
Loans and advances (Note 11)	9,107	9,337
Other financial liabilities		
Bank loans	5,211	5,211
Trade and other payables	409,764	409,764
Obligations under finance leases (Note 18)	396,564	383,800
Debentures (Note 18)	6,953	6,953
Mortgage loans and balances of purchase prices (Note 18)	34,003	35,237
Preferred shares (Note 18)	3,000	3,000
Financial liabilities at fair value designated as cash flow hedges		
Derivative financial instruments	776	776

25. Financial instruments and risk management (continued)

The following methods and assumptions were used to determine the estimated fair value of each class of financial instruments:

- The fair value of trade and other receivables and trade and other payables is comparable to their carrying amount, given the short maturity periods;
- The fair value of loans and advances, mortgage loans and balances of purchase prices was determined based on discounted cash flows using effective interest rates available to the Corporation at the end of the reporting period;
- The fair value of bank loans and credit facility is comparable to their carrying amount since they bear interest at rates comparable to market rates at the end of the reporting period;
- The fair value of the bank borrowing and credit facility is comparable to their fair value because they bear interest at rates comparable to market rates at the end of the reporting period;
- The fair value of obligations related to leased assets is comparable to their carrying amount because they bear interest at rates comparable to market rates at the end of the reporting period;
- The fair value of debentures was determined using their bid price at the end of the reporting period;
- The fair value of class D preferred shares, included in long-term debt, approximates their carrying amount (redemption value);
- The fair value of derivative instruments was determined by comparing the original rates of the derivatives with rates prevailing at the revaluation date for contracts having equal values and maturities (observable market data).

Realized gains or losses of \$159 (\$1,078 in 2010) in respect of derivative financial instruments designated as cash flow hedges have been classified in earnings and recognized in the statement of income on the same line as the hedged item, that is in the cost of sales.

Fair value hierarchy

The Corporation uses primarily the market approach to recurring fair value measurements of its financial instruments recognized at fair value. The three levels of inputs used for fair value measurements are defined as follows:

Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);

Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Corporation's financial instruments that are recognized at fair value at year end are composed of derivative financial instruments only and are classified in level 2. There were no transfers between levels or changes in the valuation technique during the year.

Finance income and finance costs

Revenues, expenses, profit and loss recognized in net income, generated by financial assets or liabilities, that are not recognized at fair value through net income, are as follows:

	2011	2010
Interest on trade and other receivables	\$ 3,575	\$ 2,819
Interest on other financial assets	1,687	1,575
Total finance income	\$ 5,262	\$ 4,394
Interest on bank loans	\$ 22,613	\$ 21,766
Interest on long-term debt	2,276	2,295
Finance costs related to repurchase of debentures	9,840	–
Total finance costs	\$ 34,729	\$ 24,061

Objectives and methods relating to risk management

The Corporation, in the normal course of business, is exposed to various risks related to financial instruments. The principal types of risk are credit risk, liquidity risk, exchange risk and exposure to foreign currencies as well as interest rate risk.

The Corporation manages risk in close collaboration with the Board of Directors. The objectives are to ensure the availability of sufficient cash flows for the short and medium term by reducing risk exposure related to capital markets.

The Corporation does not actively negotiate financial assets for speculative purposes and does not trade options. The principal financial risks to which the Corporation is exposed is described below.

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25. Financial instruments and risk management (continued)**Credit risk**

Credit risk relates to the risk that a party to a financial instrument will not fulfill some or all of its obligations, thereby causing the Corporation to sustain a financial loss. The main risks relate to trade receivables and the Corporation's loans and advances. The Corporation may also be exposed to credit risk from its cash and its forward exchange contracts, which is managed by only dealing with reputable financial institutions.

To manage credit risk from accounts receivable and loans and advances receivable, the Corporation has mortgages on some movable and immovable property owned by the debtors as well as guarantees. It examines their financial stability on a regular basis. The Corporation records allowances, determined on a client-per-client basis, at the balance sheet date to account for potential losses.

The Corporation considers that the credit quality of all its financial assets that are not impaired or overdue at the reporting date is good.

The aging of trade receivables is as follows:

	2011 As at December 25	2010 As at December 26	2009 As at December 28
Current	\$ 243,546	\$ 228,318	\$ 187,623
Past due 0 - 30 days	58,925	41,985	37,231
Past due 31-120 days	44,647	20,414	18,276
Past due over 121 days	26,465	22,323	11,417
Trade receivables	373,583	313,040	254,547
Less: allowance for doubtful accounts	15,827	15,090	13,230
	\$ 357,756	\$ 297,950	\$ 241,317

The allowance for doubtful accounts is mainly for customer accounts over 121 days past due.

The following table provides the change in allowance for doubtful accounts for trade receivables:

	2011	2010
Balance, beginning of year	\$ 15,090	\$ 13,230
Doubtful accounts expense	737	1,860
Balance, end of year	\$ 15,827	\$ 15,090

As at December 25, 2011, the maximum exposure to credit risk is \$397,483 (\$383,272 at December 26, 2010 and \$496,835 at December 28, 2009) which represents the carrying amount of financial instruments classified as assets, including cash in the amount of \$17,149 (\$75,577 at December 26, 2010 and \$239,257 at December 28, 2009).

In the consolidated income statement, the doubtful accounts expense is recorded in selling, general and administrative expenses.

Liquidity risk

Liquidity risk is the risk that the Corporation will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Corporation manages its liquidity risk by monitoring its operating requirements and using various funding sources to ensure its financial flexibility. The Corporation prepares budget and cash forecasts to ensure that it has sufficient funds to fulfil its obligations. In recent years, the Corporation financed the growth of its capacity, increase in sales, working capital requirements and acquisitions primarily through cash flows from operations, a debenture issue and the use of its revolving credit on a regular basis.

25. Financial instruments (continued)

Liquidity risk (continued)

The following tables present the financial liability instalments payable when contractually due including interest payments, where applicable:

As at December 25, 2011	Total	Less than 1 year	1 – 2 years	3 – 4 years	5 years and more
Debentures	\$ 146,505	\$ 6,412	\$ 12,583	\$ 127,510	\$ –
Mortgage loans and balances of purchase prices	42,421	16,881	16,229	3,563	5,748
Obligations under finance leases	1,806	851	588	337	30
Preferred shares	1,000	1,000	–	–	–
Bank loans	4,377	4,377	–	–	–
Trade and other payables	485,083	485,083	–	–	–
Dividends payable	2,527	2,527	–	–	–
Derivative financial instruments	691	691	–	–	–
Total	\$ 684,410	\$ 517,822	\$ 29,400	\$ 131,410	\$ 5,778

As at December 26, 2010	Total	Less than 1 year	1 – 2 years	3 – 4 years	5 years and more
Debentures	\$ 534,956	\$ 21,600	\$ 43,200	\$ 43,200	\$ 426,956
Mortgage loans and balances of purchase prices	62,960	18,227	27,763	6,052	10,918
Obligations under finance leases	3,680	2,024	1,055	450	151
Preferred shares	2,000	1,000	1,000	–	–
Bank loans	1,943	1,943	–	–	–
Trade and other payables	444,665	444,665	–	–	–
Dividends payable	9,119	9,119	–	–	–
Derivative financial instruments	1,653	1,653	–	–	–
Total	\$1,060,976	\$ 500,231	\$ 73,018	\$ 49,702	\$ 438,025

As at December 28, 2009	Total	Less than 1 year	1 – 2 years	3 – 4 years	5 years and more
Debentures	\$ 556,556	\$ 21,600	\$ 43,200	\$ 43,200	\$ 448,556
Mortgage loans and balances of purchase prices	34,003	5,185	15,724	8,431	4,663
Obligations under finance leases	7,295	3,818	2,820	455	202
Preferred shares	3,000	1,000	2,000	–	–
Bank loans	5,211	5,211	–	–	–
Trade and other payables	409,764	409,764	–	–	–
Derivative financial instruments	776	776	–	–	–
Total	\$1,016,605	\$ 447,354	\$ 63,744	\$ 52,086	\$ 453,421

Exchange risk and foreign currency sensitivity

The Corporation is exposed to exchange risk as a result of its U.S. dollar purchases. To limit the impact of fluctuations of the Canadian dollar over the U.S. dollar on net earnings, the Corporation uses foreign exchange forward contracts. The Corporation does not use derivative financial instruments for speculative or trade purposes.

As at December 25, 2011, the par value of foreign exchange forward contracts is U.S. \$91,300 (U.S. \$84,100 in 2010). The average rate of these contracts is 0.9986 (1.0274 in 2010) and they expire on various dates until July 2012.

On December 25, 2011, a 1% increase or decrease in the exchange rate of the Canadian dollar compared to the U.S. dollar, assuming that all other variables are constant, would have resulted in a \$119 (\$63 as at December 26, 2010) decrease or increase in the Corporation's net income and equity for the year ended December 25, 2011.

RONA inc.
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25. Financial instruments and risk management (continued)
Interest rate risk

In the normal course of business, the Corporation is exposed to interest rate fluctuation risk as a result of the floating-rate loans and debts receivable and loans payable. The Corporation manages its interest rate fluctuation exposure by allocating its financial debt between fixed and floating-rate instruments. The carrying amount of these instruments is as follows:

	2011 As at December 25	2010 As at December 26	2009 As at December 28
Fixed rate instruments			
Financial assets	\$ —	\$ —	\$ —
Financial liabilities	146,207	448,662	424,315
	<u>\$ (146,207)</u>	<u>\$ (448,662)</u>	<u>\$ (424,315)</u>
Floating rate Instruments			
Financial assets	\$ 10,240	\$ 7,806	\$ 9,107
Financial liabilities	105,123	14,822	13,205
	<u>\$ (94,883)</u>	<u>\$ (7,016)</u>	<u>\$ (4,098)</u>

On December 25, 2011, a 25-basis-point increase or decrease in interest rates, assuming that all other variables are constant, would have resulted in a \$170 (\$112 as at December 26, 2010) decrease or increase in the Corporation's net income and equity for the year ended December 25, 2011.

26. Post-employment benefits

The Corporation has seven defined contribution pension plans (seven in 2010) and five defined benefit pension plans (five in 2010). The most significant defined benefit plans are primarily based on final salaries. The Corporation does not offer post-employment medical insurance.

The total expense is \$10,473 for the year ended December 25, 2011 (\$10,283 in 2010) for defined contribution pension plans.

The Corporation measures its defined benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial valuations are performed on defined benefit plans for funding purposes every year.

Combined information relating to the defined benefit pension plans is as follows:

	2011 As at December 25	2010 As at December 26
Defined benefit obligations		
Balance at beginning	\$ 51,924	\$ 45,216
Current service cost	868	713
Contributions by plan participants	454	425
Interest cost	2,841	2,812
Benefits paid	(1,792)	(2,079)
Actuarial losses	3,643	4,837
Past service costs	382	—
Balance at end	<u>58,320</u>	<u>51,924</u>
Plan assets		
Fair value at beginning	51,614	46,669
Expected return on plan assets	3,199	2,885
Actuarial losses	(4,507)	(98)
Employer contributions	4,742	3,812
Contributions by plan participants	454	425
Benefits paid	(1,792)	(2,079)
Fair value at end	<u>53,710</u>	<u>51,614</u>
Funding status - deficit	(4,610)	(310)
Unrecognized amount due to the asset limit	—	(1,003)
Liability recognized for minimum funding requirements	(1,582)	(4,959)
Net defined benefit liability	<u>\$ (6,192)</u>	<u>\$ (6,272)</u>

The above amounts relate mainly to plans that are not fully funded.

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26. Post-employment benefits (continued)

The defined benefit asset (liability) is presented as follows in the Corporation's statement of financial position:

	2011 As at December 25	2010 As at December 26	2009 As at December 28
Defined benefit asset included in other non-current assets (Note 16)	\$ 1,940	\$ 1,386	\$ 1,630
Defined benefit liability included in other non-current liabilities (Note 19)	(8,132)	(7,658)	(7,866)
Net defined benefit liability	\$ (6,192)	\$ (6,272)	\$ (6,236)

Plan assets do not include financial instruments or any asset occupied or in use by the Corporation. Plan assets are allocated to the following main investment categories:

	2011 As at December 25	2010 As at December 26	2009 As at December 28
Equity securities	54%	51%	59%
Debt securities	46%	49%	41%
	100%	100%	100%

Total defined benefit pension cost recognized in net income for the years ended December 25, 2011 and December 26, 2010 is as follows:

	2011	2010
Current service cost	\$ 868	\$ 713
Finance cost related to obligations	2,841	2,812
Expected return on plan assets	(3,199)	(2,885)
Past service cost	382	—
Defined benefit cost	\$ 892	\$ 640

Amounts recognized in other comprehensive income

	2011 As at December 25	2010 As at December 26
Actuarial losses	\$ (8,150)	\$ (4,935)
Impact of asset limit	1,003	416
Impact of subsequent revaluation of liability in respect of minimum funding requirement	3,377	1,311
Total	(3,770)	(3,208)
Less : Deferred taxes	995	856
Amounts recognized as other comprehensive income	\$ (2,775)	\$ (2,352)

Accumulated other comprehensive income

	Actuarial losses	Impact of asset limit	Revaluation of liability in respect of minimum funding requirement	Total
Balance at beginning	\$ —	\$ —	\$ —	\$ —
Amounts recognized in 2010	(4,935)	416	1,311	(3,208)
Balance, December 26, 2010	(4,935)	416	1,311	(3,208)
Amounts recognized in 2011	(8,150)	1,003	3,377	(3,770)
Balance, December 25, 2011	\$ (13,085)	\$ 1,419	\$ 4,688	\$ (6,978)

Actuarial assumptions

The weighted average significant actuarial assumptions adopted in measuring the defined benefit obligation and total cost of defined benefit plans for the years ended December 25, 2011 and December 26, 2010 are as follows:

	2011 As at December 25	2010 As at December 26	2009 As at December 28
Defined benefit obligation			
Discount rate	5.00%	5.50%	6.25 %
Expected rate of compensation increase	3.70%	3.60%	3.60 %
Employee benefit costs			
Discount rate	5.50%	6.25%	
Expected rate of return on plan assets	6.00%	6.00%	
Expected rate of compensation increase	3.60%	3.60%	

RONA inc.**Notes to Consolidated Financial Statements**

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26. Post-employment benefits (continued)**Actuarial assumptions (continued)**

The total expected return on shares is based on the expected rate of return by asset category using a modelling tool that generates various expected return scenarios by asset category over an extended period. Expected plan expenses are deducted from this rate.

The effective negative return on plan assets is \$1,308 for the year ended December 25, 2011 (positive return of \$2,787 in 2010).

Mortality assumptions are based on statistics and mortality tables published in Canada, i.e. the UP94 mortality table projected dynamically using the AA scale.

The assumptions were developed by management under consideration of expert advice provided by independent actuarial appraisers. These assumptions have led to the amounts determined as the Corporation's defined benefit obligations for the reporting periods under review and should be regarded as management's best estimate. However, the actual outcome may vary.

Based on historical data, the Corporation expects contributions of \$3,328 to be paid for 2012.

Changes in the Corporation's defined benefit pension plans may also be summarized as follows (amounts prior to the date of transition are not presented as the Corporation applies the exemption provided in IFRS 1).

	2011 As at December 25	2010 As at December 26	2009 As at December 28
Defined benefit obligation	\$ 58,320	\$ 51,924	\$ 45,216
Fair value of plan assets	53,710	51,614	46,669
Plan surplus (deficit)	\$ (4,610)	\$ (310)	\$ 1,453
Experience gains (losses)			
Plan assets	\$ (4,507)	\$ (98)	
Plan obligations	\$ (359)	\$ 70	

28. Information on joint ventures

Interests in joint ventures may not be comparable from one year to another since during the year the Corporation can dispose of its interests and can purchase interests in new joint ventures. Moreover, the latter may not have a complete financial year.

The Corporation's main joint ventures are listed below:

	2011	2010
Northumberland Building Materials Ltd.	49.90%	49.90%
9065-9129 Québec inc.	49.00%	49.00%
9051-5107 Québec inc.	42.10%	42.10%
9171-4220 Québec inc.	20.00%	20.00%

The Corporation's share in the assets, liabilities, income (loss) and cash flows relating to its interests in joint ventures is as follows:

	2011	2010
Current assets	\$ 9,147	\$ 8,944
Non-current assets	13,926	14,087
Current liabilities	5,298	4,555
Non-current liabilities	6,331	7,764
Revenues	33,623	41,345
Income before finance costs, amortization, depreciation and impairment of non-financial assets and income tax expense	1,928	2,752
Net income	523	1,056
Cash flows from operating activities	1,357	983
Cash flows from investing activities	(521)	(1,580)
Cash flows from financing activities	(703)	(278)

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28. Segment Information

	2011			2010		
	Retail and commercial	Distribution	Total	Retail and commercial	Distribution	Total
Segment revenues	\$ 3,591,200	\$ 2,401,224	\$5,992,424	\$ 3,621,096	\$ 2,433,080	\$ 6,054,176
Intersegment revenues and royalties	–	(1,187,840)	(1,187,840)	–	(1,234,587)	(1,234,587)
Revenues from external customers	3,591,200	1,213,384	4,804,584	3,621,096	1,198,493	4,819,589
Income before finance costs, amortization, depreciation and impairment of non-financial assets and income tax expense	177,795	62,760	240,555	259,560	76,757	336,317
Finance income			(5,262)			(4,394)
Goodwill impairment			(117,000)			–
Amortization, depreciation and impairment of non-financial assets			(149,736)			(108,718)
Operating profit (loss)			(31,443)			223,205
Finance income			5,262			4,394
Finance costs			(34,729)			(24,061)
Income (loss) before income tax expense			\$ (60,910)			\$ 203,538

The above information is reported regularly to the chief operating decision maker, the President and Chief Executive Officer.

29. Earnings per share

The table below shows the calculation of basic and diluted net earnings (loss) per share:

	2011	2010
Net earnings (loss) attributable to owners of RONA inc.	\$ (78,382)	\$ 137,356
Dividends on preferred shares, including related income taxes	(7,985)	–
Net earnings (loss) attributable to participating shares	(86,367)	137,356
Number of shares (in thousands)		
Weighted average number of shares used to compute basic net earnings (loss) per share attributable to owners of RONA inc.	129,984.3	130,139.3
Effect of dilutive stock options ^(a)	–	1,125.7
Weighted average number of shares used to compute diluted net earnings (loss) per share attributable to owners of RONA inc.	129,984.3	131,265.0
Net earnings (loss) per share attributable to owners of RONA inc.		
Basic	\$ (0.66)	\$ 1.06
Diluted	\$ (0.66)	\$ 1.05

(a) As at December 25, 2011, 2,574,175 stock options (570,419 options in 2010) were excluded from the calculation of diluted net earnings (loss) per share attributable to the Corporation's owners since these options have an antidilutive effect.

30. Related party transactions
Transactions with key management personnel

Key management of the Corporation are the members of the Board of Directors, which includes the President and Chief Executive Officer, and Senior Vice-Presidents. For the years ended December 25, 2011 and December 26, 2010, their compensation includes the following:

	2011	2010
Short-term employee benefits	\$ 5,592	\$ 6,015
Post-employment benefits	997	874
Share-based payments	(780)	3,837
	\$ 5,809	\$ 10,726

Short-term employee benefits consist of a lump-sum cash payment, directors' fees and fees for Board of Directors members. The remuneration of the President and Chief Executive Officer and the Senior Vice-Presidents consists primarily of a salary and a short-term incentive bonus based on individual performance measurements and corporate objectives. The President and Chief Executive Officer and the Senior Vice-Presidents are also entitled to various indirect benefits, such as an automobile allowance, health care and financial planning services.

For the President and Chief Executive Officer, post-employment benefits are a basic defined benefit plan and a complementary defined benefit plan. Benefits under these plans are calculated on years of service, multiplied by 2% of three-year average best earnings (subject to applicable limits).

RONA inc.**Notes to Consolidated Financial Statements**

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30. Related party transactions (continued)**Transactions with key management personnel (continued)**

The Senior Vice-Presidents' pension plan consists of a basic defined contribution plan and a complementary defined benefit plan. Since January 1, 2000, amounts accrue annually in the basic plan up to the maximum amount authorized by the tax authorities. Retirement income for the Vice-Presidents under the basic plan, in combination with the complementary plan, should be equivalent to the annual accumulation since January 1, 2000 of 18% of the annual salary paid in a given year plus an annual yield. The complementary plan provides for vesting of the employer's contribution over ten years and certain non-competition restrictions.

Share-based payments consist of the RSUs, DSUs and stock options described in Note 23.

Transactions with subsidiaries and joint ventures

RONA inc. is the party that exercises ultimate control of the Corporation.

Transactions between the Corporation and its subsidiaries, that are related parties, are eliminated in consolidation and are not presented in this note.

Transactions between the Corporation and its joint ventures, that are related parties that were not eliminated in consolidation, are summarized below:

	2011		2010
Sales of merchandise	\$ 35,882	\$	55,433
Leases	1,604		1,552
Trade and other receivables	3,510		3,711

Unless otherwise indicated, none of the transactions contain special characteristics or conditions.

The Corporation's main subsidiaries, which are all Canadian, with ownership and voting rights held, are listed below:

	2011	2010
RONA Revy inc.	100%	100%
Totem Building Supplies Ltd.	100%	100%
4536631 Canada inc.	100%	100%
4338553 Canada inc.	100%	100%
7594828 Canada inc.	100%	—
Buildrite Centres inc.	100%	—
220 Real Estate Limited Partnership	100%	100%

31. First-time Adoption of IFRS

These are the Corporation's first annual consolidated financial statements prepared in accordance with IFRS. The date of transition to IFRS is December 28, 2009.

The Corporation's IFRS accounting policies presented in Note 3 have been applied in preparing the consolidated financial statements for the year ended December 25, 2011, December 26, 2010 and December 28, 2009.

The Corporation has applied IFRS 1 in preparing the consolidated statement of financial position as at December 28, 2009. The effects of the transition to IFRS on equity, other comprehensive income and reported cash flows are presented and further explained in the tables of this note.

First-time adoption exceptions and exemptions

Upon transition, IFRS 1 requires certain mandatory exceptions and permits certain optional exemptions to retrospective application.

The following mandatory exceptions apply to the Corporation:

- The estimates used by the Corporation under IFRS on the date of transition to IFRS and for the comparative period are consistent with the estimates used under GAAP at the same date, adjusted for accounting policy differences where necessary;
- Transactions entered into before the date of transition to IFRS were not retrospectively designated as hedges;
- The Corporation will prospectively attribute total other comprehensive income to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
- The Corporation will apply the derecognition provisions in IAS 39, *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after the date of transition as permitted by an amendment to IFRS 1 issued in October 2010 and early-applied as of December 28, 2009.

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31. First-time Adoption of IFRS (continued)**First-time adoption exceptions and exemptions (continued)**

The Corporation will apply the following exemptions:

- The Corporation has elected not to apply IFRS 3, *Business Combinations* retrospectively to business combinations that occurred before the date of transition (December 28, 2009). See Note 31.3 for an explanation of the effect of this exemption;
- The Corporation has elected to recognize all cumulative actuarial gains and losses for its defined benefit plans at the date of transition. From the date of transition, the Corporation's accounting policy is to recognize all actuarial gains and losses immediately in the consolidated statement of other comprehensive income without transfer to the consolidated statement of net income in subsequent periods. Further, the Corporation has elected to use the exemption not to disclose the defined benefit plan surplus/deficit and experience gains and losses before the date of transition (see Note 31.7);
- The Corporation has elected not to apply retrospectively the recognition of borrowing costs relating to qualifying assets. It has derecognized borrowing costs included in construction projects and certain software development projects at the date of transition (see Notes 31.1(a) and 31.2);
- The Corporation has elected not to apply IFRS 2, *Share-based Payments* retrospectively, to options granted before November 7, 2002 and to options granted after November 7, 2002 that vested before the date of transition (see Note 31.8).

Presentation differences

Certain presentation differences between GAAP and IFRS have no impact on reported income or total equity.

As shown in the following tables, some line items are described differently under IFRS compared to GAAP, although the assets and liabilities included in these line items are unaffected.

Reconciliation of equity

Equity as at December 26, 2010 and the date of transition can be reconciled to the amounts reported under previous GAAP as follows:

	Note	2010 As at December 26 \$	2009 As at December 28 \$
Equity under GAAP		\$ 1,921,610	\$ 1,779,039
Increase (decrease) in reported equity due to differences between GAAP and IFRS			
Property, plant and equipment – derecognition of certain costs capitalized to property, plant and equipment under GAAP but which do not meet the capitalization criteria under IFRS	31.1(a)	(16,279)	(11,916)
Property, plant and equipment – derecognition of interest capitalized during the site construction period	31.1(a)	(18,223)	(18,262)
Depreciation of property, plant and equipment – impact of disaggregation of certain items of property, plant and equipment and retrospective application of specific depreciation rates to each component	31.1(b)	2,814	978
Additional depreciation of property, plant and equipment to reflect the start of depreciation once the item of property, plant and equipment is available for use	31.1(b)	(3,201)	(2,478)
Impairment of assets – impairment of leasehold improvements	31.1(c)	(4,207)	(4,763)
Intangible assets – derecognition of interest capitalized during the implementation period of certain software	31.2	(1,832)	(2,045)
Goodwill – derecognition of acquisition costs	31.3	(3,494)	–
Goodwill – difference in value of shares issued to finance the acquisition	31.3	722	–
Leases – reversal of deferred gains on sale and leaseback transactions	31.4	10,179	11,324
Leases – reversal of deferred transaction costs to financial position relating to sale and leaseback transactions	31.4	(2,345)	(2,612)
Financial instruments – reversal of embedded derivatives recognized on some purchase orders	31.5	(1,905)	(1,253)
Provisions – adjustment of provision for onerous contract	31.6	(1,553)	–
Defined benefit plans – recognition of unamortized actuarial gains or losses on the date of the transition and reclassification of a defined contribution plan as defined benefit plan	31.7	(10,524)	(11,235)
Defined benefit plans – recognition of unamortized actuarial losses in other comprehensive income	31.7	(4,935)	–
Defined benefit plans – impact of the maximum limit on an asset	31.7	(1,003)	(1,419)
Defined benefit plans – impact of minimum funding requirements	31.7	(4,959)	(6,270)
Consolidated financial statements – presentation of non-controlling interests in equity and impact of retaining non-controlling interests in subsidiaries with a deficit balance	31.9	35,920	32,761
Income taxes – income taxes on above adjustments	31.10	15,012	13,041
		(9,813)	(4,149)
Equity under IFRS		\$ 1,911,797	\$ 1,774,890

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31. First-time Adoption of IFRS (continued)

The total effect on the statement of financial position is presented in the following tables:

		As at December 26, 2010			
Former wording	Note	GAAP	Effect of transition to IFRS	IFRS	New wording
ASSETS					
Current assets					ASSETS
Cash		\$ 75,577	\$ –	\$ 75,577	Current
Accounts receivable	31.1(a) / 31.1(d) / 31.3 / 31.13	303,836	(3,947)	299,889	Cash
	31.13	–	2,245	2,245	Trade and other receivables
Inventory		905,467	–	905,467	Other financial assets
Prepaid expenses		17,955	–	17,955	Inventory
Derivative financial instruments	31.5	1,905	(1,905)	–	Prepaid expenses
Future income taxes	31.10	12,869	(12,869)	–	
		1,317,609	(16,476)	1,301,133	Current assets
Long-term assets					Non-current
Investments	31.1(d)	10,488	(844)	9,644	Other financial assets
Fixed assets	31.1	918,273	(33,229)	885,044	Property, plant and equipment
Fixed assets held for sale	31.1	20,177	(3,703)	16,474	Non-current assets held for sale
Goodwill	31.3	531,675	(2,581)	529,094	Goodwill
Intangible assets	31.1(d) / 31.2	118,747	9,476	128,223	Intangible assets
Other assets	31.2 / 31.4 / 31.7	31,043	(27,798)	3,245	Other non-current assets
Future income taxes	31.10	27,065	21,698	48,763	Deferred tax assets
		\$ 2,975,077	\$ (53,457)	\$ 2,921,620	Total assets
LIABILITIES					
Current liabilities					LIABILITIES
Bank loans		\$ 1,943	\$ –	\$ 1,943	Current
Accounts payable and accrued liabilities	31.6 / 31.7	462,351	(8,185)	454,166	Bank loans
Dividends payable		9,119	–	9,119	Trade and other payables
Income taxes payable	31.10	3,634	(255)	3,379	Dividends payable
Derivative financial instruments		1,653	–	1,653	Current tax liabilities
	31.6	–	4,625	4,625	Derivative financial instruments
Future income taxes	31.10	3,691	(3,691)	–	Provisions
Instalments on long-term debt		21,151	–	21,151	
		503,542	(7,506)	496,036	Instalments on long-term debt
Long-term liabilities					Current liabilities
Long-term debt		444,333	–	444,333	Non-current
Other long-term liabilities	31.4 / 31.7	33,121	(2,520)	30,601	Long-term debt
	31.6	–	4,539	4,539	Other non-current liabilities
Future income taxes	31.10	36,551	(2,237)	34,314	Provisions
Non-controlling interest	31.9	35,920	(35,920)	–	Deferred tax liabilities
		1,053,467	(43,644)	1,009,823	Total liabilities
Shareholders' equity					Equity
Capital stock	31.3	631,892	722	632,614	Share capital
Retained earnings		1,278,244	(44,790)	1,233,454	Retained earnings
Contributed surplus	31.8	11,474	(337)	11,137	Contributed surplus
Accumulated other comprehensive income	31.5	–	(1,217)	(1,217)	Accumulated other comprehensive income
		1,921,610	(45,622)	1,875,988	Total equity attributable to owners of RONA inc.
	31.9	–	35,809	35,809	Non-controlling interests
		1,921,610	(9,813)	1,911,797	Total equity
		\$ 2,975,077	\$ (53,457)	\$ 2,921,620	Total liabilities and equity

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31. First-time Adoption of IFRS (continued)

As at December 28, 2009					
Former wording	Note	GAAP	Effect of transition to IFRS	IFRS	New wording
ASSETS					ASSETS
Current					Current
Cash		\$ 239,257	\$ –	\$ 239,257	Cash
Accounts receivable	31.13	250,845	(2,644)	248,201	Trade and other receivables
	31.13	–	2,644	2,644	Other financial assets
Income taxes receivable		2,436	–	2,436	Current tax assets
Inventory	31.5	726,262	(452)	725,810	Inventory
Prepaid expenses		18,114	–	18,114	Prepaid expenses
Derivative financial instruments	31.5	801	(801)	–	
Future income taxes	31.10	15,914	(15,914)	–	
		1,253,629	(17,167)	1,236,462	Current assets
Long-term assets					Non-current
Investments	31.1	11,978	(860)	11,118	Other financial assets
Fixed assets	31.1	861,302	(33,419)	827,883	Property, plant and equipment
Fixed assets held for sale	31.1	13,242	(2,162)	11,080	Non-current assets held for sale
Goodwill		455,572	–	455,572	Goodwill
Intangible assets	31.2	96,885	9,272	106,157	Intangible assets
Other assets	31.2 / 31.4 / 31.7	29,682	(25,276)	4,406	Other non-current assets
Future income taxes	31.10	27,593	24,237	51,830	Deferred tax assets
		\$ 2,749,883	\$ (45,375)	\$ 2,704,508	Total assets
As at December 28, 2009					
Former wording	Note	GAAP	Effect of transition to IFRS	IFRS	New wording
LIABILITIES					LIABILITIES
Current liabilities					Current
Bank loans		\$ 5,211	\$ –	\$ 5,211	Bank loans
Accounts payable and accrued liabilities	31.6 / 31.7	427,817	(18,053)	409,764	Trade and other payables
Derivative financial instruments		776	–	776	Derivative financial instruments
	31.6	–	7,002	7,002	Provisions
Future income taxes	31.10	4,900	(4,900)	–	
Instalments on long-term debt		9,996	–	9,996	Instalments on long-term debt
		448,700	(15,951)	432,749	Current liabilities
Long-term liabilities					Non-current
Long-term debt		430,524	–	430,524	Long-term debt
Other long-term liabilities	31.4 / 31.7	31,317	(3,458)	27,859	Other non-current liabilities
	31.6	–	10,762	10,762	Provisions
Future income taxes	31.10	27,542	182	27,724	Deferred tax liabilities
Non-controlling interest	31.9	32,761	(32,761)	–	
		970,844	(41,226)	929,618	Total liabilities
Shareholders' equity					Equity
Capital stock		603,756	–	603,756	Share capital
Retained earnings		1,161,808	(36,573)	1,125,235	Retained earnings
Contributed surplus	31.8	13,475	(337)	13,138	Contributed surplus
		1,779,039	(36,910)	1,742,129	Total equity attributable to owners of RONA inc.
	31.9	–	32,761	32,761	Non-controlling interests
		1,779,039	(4,149)	1,774,890	Total equity
		\$ 2,749,883	\$ (45,375)	\$ 2,704,508	Total liabilities and equity

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31. First-time Adoption of IFRS (continued)
Reconciliation of total comprehensive income

Total comprehensive income for the year ended December 26, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

	Note	2010
Comprehensive income under GAAP		\$ 143,221
Increase (decrease) in reported income due to differences between GAAP and IFRS		
Property, plant and equipment – derecognition of certain costs capitalized to property, plant and equipment under GAAP but which do not meet the capitalization criteria under IFRS	31.1(a)	(4,364)
Property, plant and equipment – impact of derecognition of interest capitalized during the site construction period	31.1(a)	39
Depreciation of property, plant and equipment – impact of disaggregation of certain items of property, plant and equipment and retrospective application of specific depreciation rates to each component	31.1(b)	1,837
Additional depreciation of property, plant and equipment to reflect the start of depreciation once the item of property, plant and equipment is available for use	31.1(b)	(723)
Impairment of assets – impact of impairment of leasehold improvements on depreciation	31.1(c)	556
Intangible assets – derecognition of interest capitalized during the implementation period of certain software	31.2	213
Goodwill – derecognition of acquisition costs	31.3	(4,062)
Leases – reversal of deferred gains on sale and leaseback transactions, net of the reversal of related deferred transaction costs to financial position	31.4	(879)
Financial instruments – reversal of embedded derivatives recognized on some purchase orders	31.5	(652)
Provisions – adjustment of provision for onerous contract	31.6	(1,553)
Defined benefit plans – impact of the recognition of unamortized actuarial gains or losses on the date of transition, impact of the maximum limit on an asset and impact of minimum funding requirements	31.7	2,438
Defined benefit plans – recognition of actuarial losses in other comprehensive income	31.7	(4,935)
Consolidated financial statements – impact of retaining non-controlling interests for subsidiaries with a deficit balance	31.9	111
Consolidated financial statements – elimination of non-controlling interests which are no longer deducted from other comprehensive income		5,465
Income taxes – income taxes on above adjustments	31.10	1,505
Income taxes – income taxes on other comprehensive income	31.5	1,035
		(3,969)
Total comprehensive income under IFRS		\$ 139,252

Former wording	Note	For the year ended December 26, 2010			New wording
		GAAP	Effect of transition to IFRS	IFRS	
Sales	31.11	\$ 4,799,865	\$ 19,724	\$ 4,819,589	Revenues
Operating income	31.1 / 31.2 / 31.3 / 31.4 / 31.5 / 31.6 / 31.7 / 31.9	228,731	(5,526)	223,205	Operating profit
Finance income		4,394	–	4,394	Finance income
Interest on long-term debt and bank loans	31.1	(22,521)	(1,540)	(24,061)	Finance costs
		(18,127)	(1,540)	(19,667)	
Earnings before income taxes and non-controlling interest		210,604	(7,066)	203,538	Income before income tax expense
Income taxes	31.10	(61,918)	1,201	(60,717)	Income tax expense
Earnings before non-controlling interest		148,686	(5,865)	142,821	
Non-controlling interest	31.9	(5,465)	5,465	–	
Net earnings		143,221	(400)	142,821	Net income
Other comprehensive income, net of taxes:					Other comprehensive income, net of taxes:
Cash flow hedges					Cash flow hedges
- Loss for the period	31.5	–	(1,490)	(1,490)	- Loss for the period
- reclassification to earnings	31.5	–	273	273	- reclassification to income or loss
	31.7	–	(2,352)	(2,352)	Actuarial losses
Comprehensive income		\$ 143,221	\$ (3,969)	\$ 139,252	Total comprehensive income
Comprehensive income attributable to:					Total comprehensive income attributable to:
Shareholders		\$ 143,221	\$ (9,434)	\$ 133,787	Owners of RONA inc.
	31.9	–	5,465	5,465	Non-controlling interests
		\$ 143,221	\$ (3,969)	\$ 139,252	

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31. First-time Adoption of IFRS (continued)**Notes to reconciliation of equity and other comprehensive income****31.1 Property, plant and equipment***(a) Derecognition of certain costs and borrowing costs capitalized to property, plant and equipment*

Under GAAP, certain costs had been capitalized to the cost of property, plant and equipment which do not meet the criteria for capitalization under IFRS and consequently have been derecognized. This resulted in a decrease in the following line items:

	2010 As at December 26	2009 As at December 28
Property, plant and equipment	\$ (13,541)	\$ (10,703)
Non-current assets held for sale	(1,801)	(1,213)
Trade and other receivables	(937)	–
Impact of transition to IFRS	\$ (16,279)	\$ (11,916)

As a result, operating profit decreased by \$2,823 as at December 26, 2010 and financing costs increased by \$1,540 as at December 26, 2010.

At the date of transition, the Corporation elected to apply the IFRS 1 exemption on borrowing costs and derecognized all capitalized interest related to construction projects before the date of transition. This resulted in a decrease in the following line items:

	2010 As at December 26	2009 As at December 28
Property, plant and equipment	\$ (16,321)	\$ (17,313)
Non-current assets held for sale	(1,902)	(949)
Impact of transition to IFRS	\$ (18,223)	\$ (18,262)

Depreciation under IFRS is based on the adjusted amount, which results in a \$39 increase in operating profit for the year ended December 26, 2010.

(b) Depreciation and amortization

In order to comply with IFRS, the Corporation retrospectively amended the recognition of items of property, plant and equipment having different useful lives to recognize them separately. The Corporation therefore retrospectively calculated the depreciation of building components. As a result, the net carrying amount of property, plant and equipment increased by \$2,814 as at December 26, 2010, (\$978 as at December 28, 2009) and the depreciation expense decreased by \$1,837 for the year ended December 26, 2010.

Additionally, under IFRS, depreciation begins when the asset is available for use whereas under GAAP depreciation commences when the asset is utilized by the Corporation. This resulted in a \$3,201 decrease in property, plant and equipment as at December 26, 2010, (\$2,478 as at December 28, 2009) and a \$723 increase in the depreciation expense for the year ended December 26, 2010.

(c) Impairment losses recognized at the date of transition

The Corporation applied IAS 36, *Impairment of Assets*, in determining whether any impairment losses arose at the date of transition to IFRS.

GAAP uses a two-step approach for impairment testing to determine the recoverable amount. First, a recoverability test is performed by comparing the undiscounted expected future cash flows to be derived from the asset to its carrying amount. If the asset fails the recoverability test, then an impairment loss is calculated as the excess of the asset's carrying amount over its fair value. IFRS recognizes an impairment loss if the recoverable amount is less than the carrying amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Value in use is the present value of estimated future cash flows expected from continuing use of the asset.

Accordingly, as at December 26, 2010, a cumulative impairment loss of \$4,207, (\$4,763 as at December 28, 2009) was recognized to reduce the value of leasehold improvements to two stores in the retail and commercial store segment in a loss position and whose value in use determined using a pre-tax discount rate of 13.0% is below the carrying amount. Under IFRS, depreciation is calculated using the adjusted amount, thereby resulting in a \$556 decrease in depreciation expense for the year ended December 26, 2010.

(d) Presentation differences

A building leased to an affiliated merchant of the RONA group and used in the supply of goods has been classified as an item of property, plant and equipment rather than an investment property. An amount of \$844 as at December 26, 2010, (\$860 as at December 28, 2009) has therefore been reclassified from other financial assets to property, plant and equipment.

As at December 26, 2010 an amount of \$573 related to a project in progress was reclassified from trade and other receivables to property, plant and equipment (\$383) and intangible assets (\$190) (\$0 as at December 28, 2009).

RONA inc.**Notes to Consolidated Financial Statements**

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31. First-time Adoption of IFRS (continued)**Notes to reconciliation of equity and other comprehensive income (continued)****31.1 Property, plant and equipment (continued)***(e) Summary of transition-related adjustments*

Property, plant and equipment are adjusted as follows:

	Ref	2010 As at December 26	2009 As at December 28
Derecognition of certain costs capitalized to property, plant and equipment	a)	\$ (13,541)	\$ (10,703)
Derecognition of interest capitalized prior to transition date	a)	(16,321)	(17,313)
Disaggregation of certain items of property, plant and equipment and retrospective application of specific depreciation rates	b)	2,814	978
Additional depreciation once an item of property, plant and equipment is available for use	b)	(3,201)	(2,478)
Asset impairment – impairment loss on leasehold improvements	c)	(4,207)	(4,763)
Reclassification of a building leased to a merchant	d)	844	860
Reclassification of an amount related to a project in progress	d)	383	–
Impact of transition to IFRS		\$ (33,229)	\$ (33,419)

31.2 Intangible assets

The Corporation elected to apply the exemption in IFRS 1 for borrowing costs and derecognized all interest capitalized during the implementation period of certain software which commenced before the date of transition. This resulted in a \$1,832 reduction in intangible assets as at December 26, 2010, (\$2,045 as at December 28, 2009). Amortization under IFRS is based on the revalued amount, thereby resulting in a \$213 decrease in amortization expense for the year ended December 26, 2010.

For consistency with IFRS presentation, \$11,118 in dealer recruitment costs as at December 26, 2010 (\$11,317 as at December 28, 2009), have been reclassified from other non-current assets to intangible assets.

31.3 Goodwill and business combinations

The Corporation has elected to not restate business combinations that occurred before the date of transition. Consequently, the other specifications of the exemption were applied and no adjustment was required at transition for intangible assets included in goodwill or those which do not meet the criteria for capitalization under IFRS. At the date of transition and as at December 26, 2010, this goodwill was tested for impairment based on conditions prevailing at those dates, and no impairment was identified. The amount of goodwill recognized upon transition has therefore not been adjusted.

Acquisition costs associated with business combinations during the year ended December 26, 2010 were derecognized under IFRS. This resulted in a \$3,303 decrease in goodwill (\$0 as at December 28, 2009), a \$192 decrease in trade and other receivables (\$0 as at December 28, 2009), a \$4,062 decrease in operating profit for the year ended December 26, 2010 and a \$567 decrease in income tax expense.

During the year ended December 26, 2010, goodwill and share capital were increased by \$722 (\$0 as at December 28, 2009) for the difference in the value of the Corporation's shares under IFRS issued to finance the business acquisition and their value under GAAP. Since these shares were issued as payment for a business combination, under GAAP, their value is based on market prices in effect several days preceding and following the closing date of the transaction. Under IFRS, shares issued for a business combination are valued using the acquisition date fair value of the shares.

31.4 Leases

For all sale and leaseback transactions at fair value, which result in an operating lease for the lessee, all gains must be immediately recorded in income or loss under IFRS. Under GAAP, these gains are deferred and recorded in income over the lease term. As at December 26, 2010, other non-current liabilities were reduced by \$10,179 (\$11,324 as at December 28, 2009) and deferred transaction costs on sale and leaseback transactions recognized in other non-current assets were reduced by \$2,345 (\$2,612 as at December 28, 2009). Operating profit was reduced by \$879 for the year ended December 26, 2010.

31.5 Financial instruments

Under IFRS, a foreign currency derivative embedded in a purchase contract that provides for payments drawn in a relatively stable, liquid currency that is routinely used for trade outside the country where the transaction takes place cannot be accounted for separately. Under GAAP, entities could choose whether to account for embedded derivatives separately. Under GAAP, the Corporation had elected to account for them separately and, accordingly, derecognized \$1,905 in derivative financial instruments presented in assets as at December 26, 2010 (\$801 as at December 28, 2009), reduced inventory by \$0 (\$452 as at December 28, 2009), and decreased operating profit by \$652 for the year ended December 26, 2010.

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31. First-time Adoption of IFRS (continued)**Notes to reconciliation of equity and other comprehensive income (continued)****31.5 Financial instruments (continued)**

In early 2010, to recognize the changes in the fair value of hedge instruments in the same accounting period as the currency gains and losses related to disbursements, the Corporation introduced a cash flow hedge accounting strategy for IFRS purposes only. This resulted in a \$1,700 increase in operating profit and a \$1,217 decrease in other comprehensive income, net of a \$483 deferred tax expense, for the year ended December 26, 2010.

31.6 Provisions

As at December 26, 2010, trade and other payables in the amount of \$7,612 (\$17,764 as at December 28, 2009) were reclassified to provisions to present provisions separately as required under IFRS.

Following the closure of two stores in the retail and commercial segment in 2008, a provision for onerous contracts was recognized for non-cancellable operating leases for commercial stores the Corporation no longer uses.

Under GAAP, when the contract is an operating lease, the fair value of the obligation at the date when the asset ceases to be utilized is based on rents receivable under the terms of the contract reduced by estimated sublease payments that could reasonably be obtained for the asset even when the entity has no intention of entering into a sublease contract.

Under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, the provision must be reviewed at the end of each reporting period. The provision recognized must be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. During the year ended December 26, 2010, the Corporation reviewed its assumptions, including the subleasing assumptions, which resulted in an increase in the following:

	2010 As at December 26	2009 As at December 28
Reclassification of trade and other payables to current provisions	\$ 4,094	\$ 7,002
Impact of revised assumptions related to provisions including subleasing assumptions	531	–
Impact of transition to IFRS on current provisions	\$ 4,625	\$ 7,002

	2010 As at December 26	2009 As at December 28
Reclassification of trade and other payables to non-current provisions	\$ 3,518	\$ 10,762
Impact of revised assumptions related to provisions including subleasing assumptions	1,021	–
Impact of transition to IFRS on non-current provisions	\$ 4,539	\$ 10,762

Operating profit was reduced by \$1,553 for the year ended December 26, 2010.

31.7 Pension and other employee benefits

At the date of transition, the Corporation elected to apply the IFRS 1 exemption and elected to recognize all cumulative actuarial gains and losses in retained earnings. This resulted in a \$12,582 decrease in the defined benefit asset included in other non-current assets (\$9,928 as at December 28, 2009) and a \$0 increase in the defined benefit liability included other non-current liabilities (\$185 as at December 28, 2009), representing the unamortized net actuarial loss as at December 26, 2010. One pension plan, classified as defined contribution under GAAP, has been reclassified as defined benefit under IFRS, resulting in a \$1,418 increase in the defined benefit liability included in other non-current liabilities (\$1,411 as at December 28, 2009) and a \$573 reduction in trade and other payables as at December 26, 2010 (\$289 as at December 28, 2009).

The Corporation has elected to recognize all actuarial gains and losses immediately in the consolidated statement of other comprehensive income without a transfer to the statement of net income in subsequent periods. This resulted in a \$720 decrease in defined benefit asset and a \$1,312 increase in defined benefit liability. Actuarial gains and losses are not amortized to net income but are, instead, recognized directly in the consolidated statement of other comprehensive income at each financial reporting date.

The Corporation may no longer recognize a defined benefit asset if it does not have an unconditional right to the surplus in the event of the closure of the plan, for example, and if it does not have the right to reduce future contributions. As a result, following application of IFRS 1, the Corporation reversed the defined benefit asset balance of \$1,003 as at December 26, 2010 (\$1,419 as at December 28, 2009).

Under IFRS, an entity is required to recognize an additional liability equivalent to the minimum funding requirement related to defined benefit plans if it does not have an unconditional right to the surplus, which increased the Corporation's defined benefit liability by \$4,931 (\$6,270 as at December 28, 2009) and reduced the defined benefit asset by \$28 as at December 26, 2010 (\$0 as at December 28, 2009).

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31. First-time Adoption of IFRS (continued)**Notes to reconciliation of equity and other comprehensive income (continued)****31.7 Pension and other employee benefits (continued)**

The impact of the changes is presented below :

	2010 As at December 26	2009 As at December 28
Statement of financial position		
Recognition of actuarial losses		
Decrease in defined benefit asset	\$ 13,302	\$ 9,928
Increase in defined benefit liability	1,312	185
	<u>14,614</u>	<u>10,113</u>
Reclassification of a pension plan		
Increase in defined benefit liability	1,418	1,411
Decrease in trade and other payables	(573)	(289)
Asset limit		
Decrease in defined benefit asset	1,003	1,419
Liability in respect of minimum funding requirement		
Decrease in defined benefit asset	28	–
Increase in defined benefit liability	4,931	6,270
	<u>21,421</u>	<u>18,924</u>
Decrease in defined benefit asset	14,333	11,347
Increase in defined benefit liability	7,661	7,866
Decrease in trade and other payables	(573)	(289)
	<u>21,421</u>	<u>18,924</u>
Statement of net income		
Impact of above changes on defined benefit cost	711	–
Income taxes	(184)	–
Impact on net income	<u>527</u>	<u>–</u>
Statement of comprehensive income		
Impact on net income	527	–
Other comprehensive income		
Actuarial losses	(4,935)	–
Impact of asset limit	416	–
Revaluation of liability in respect of minimum funding requirement	1,311	–
	<u>(3,208)</u>	<u>–</u>
Income taxes	856	–
Impact on comprehensive income	<u>(1,825)</u>	<u>–</u>

31.8 Share-based payment

IFRS 2, *Share-based Payment*, requires that stock option grant tranches with different vesting dates be recognized separately and fair value determined for each grant. As at December 26, 2010, compensation cost was recalculated using the new method, which led to a \$337 reduction in contributed surplus (\$337 as at December 28, 2009).

31.9 Consolidation

Non-controlling interests are presented differently under IFRS than under GAAP. In the statement of financial position, they are classified in equity, separately from equity attributable to the owners of RONA inc. and they are presented in net income and then as an attribution of net income.

Under IAS 27, *Consolidated and Separate Financial Statements* and the mandatory exception in IFRS 1, from the date of transition, the subsidiaries' income or loss is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance. Under GAAP, the Corporation recognized an additional expense in income to offset the deficit balance of the non-controlling interests. Accordingly, as at December 26, 2010, the Corporation adjusted non-controlling interests in equity through a \$111 reduction (\$0 as at December 28, 2009) and increased operating profit in the same amount for the year ended December 26, 2010.

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31. First-time Adoption of IFRS (continued)**Notes to reconciliation of equity and other comprehensive income (continued)****31.10 Income taxes**

The following table shows the effect of transition adjustments on the Corporation's current and deferred tax assets and liabilities:

	2010 As at December 26	2009 As at December 28
Property, plant and equipment	\$ 10,042	\$ 9,548
Intangible assets	535	568
Leases	(2,077)	(2,436)
Financial instruments	541	348
Pension and other employee benefits	5,571	5,013
Provisions	400	—
Total	\$ 15,012	\$ 13,041
Increase in deferred tax assets	\$ 8,829	\$ 8,323
Decrease in current tax liabilities	255	—
Decrease in deferred tax liabilities	5,928	4,718
Total	\$ 15,012	\$ 13,041

A \$1,505 decrease in income tax expense was recognized in income for the year ended December 26, 2010 for income tax on all previously-mentioned adjustments.

Additionally, \$12,869 in deferred tax amounts (\$15,914 as at December 28, 2009) in current assets and \$3,691 (\$4,900 as at December 28, 2009) in current liabilities have been reclassified in non-current assets and non-current liabilities respectively in accordance with the IFRS presentation as at December 26, 2010.

31.11 Revenue

Revenue in the amount of \$19,724 for the year ended December 26, 2010 has been reclassified to conform to the presentation under IFRS related to not offsetting revenues and expenses.

31.12 Statement of cash flows

Interest received has been classified in operating cash flows and investing cash flows according to their nature. Interest paid has been classified in financing cash flows because it is a cost of obtaining financial resources.

There are no other significant differences between the statements of cash flows under IFRS and under GAAP.

31.13 Presentation

Other current assets in the amount of \$2,245 as at December 26, 2010 (\$2,644 as at December 28, 2009), previously presented with trade and other receivables are now presented separately.

31.14 Change in accounting policy during the reporting period covered by the first IFRS financial statements

During the reporting period covered by the first IFRS financial statements, the Corporation changed the accounting method for defined benefit pension plans to recognize all cumulative actuarial gains and losses immediately in the consolidated statement of other comprehensive income instead of using the corridor approach.

	2010 as at December 26
Reconciliation of total comprehensive income	
Total comprehensive income under IFRS, as presented in the quarterly financial statements	\$ 140,731
Impact of change of accounting policy regarding actuarial losses and other items relating to the defined benefit pension plans	(1,479)
Total comprehensive income under IFRS, as presented in the annual financial statement after the change in accounting policy	\$ 139,252
Reconciliation of equity	
Total equity under IFRS, as presented in the quarterly financial statements	\$ 1,913,276
Impact of change of accounting policy regarding actuarial losses and other items relating to the defined benefit pension plans	(1,479)
Total comprehensive income under IFRS, as presented in the annual financial statement after the change in accounting policy	\$ 1,911,797

32. Events after the reporting period

On February 22, 2012, the Board of Directors approved a plan for the roll-out of the next phase of the Corporation's business plan.

This next phase of the business plan is based on the three main financial priorities of the Corporation, i.e. to improve efficiency, optimize the capital structure and increase the return on capital. This phase will be rolled-in over the next year. In 2012, the Corporation expects to incur an additional restructuring charge of approximately \$110,000, which will be recorded when the criteria for recognition is met.

33. Authorization of consolidated financial statements

The consolidated financial statements for the year ended December 25, 2011 (including comparative figures) were approved by the Board of Directors on February 22, 2012.

MEMBERS OF THE BOARD OF DIRECTORS

Jean Gaulin, Chairman of the board of directors of RONA and Corporate Director

Robert Dutton, President and Chief Executive Officer of RONA

Suzanne Blanchet, President and Chief Executive Officer of Cascades Tissue Group (papermaker)

Réal Brunet, Corporate Director

Louise Caya, Vice President and Secretary of Thomas Caya (1982) Inc. (hardware store) and Vice President and Controller, Industrie Fabco Inc. (prefabricated kiosks and shelters)

Richard Fortin, Corporate Director

Jean-Guy Hébert, President of Maximat Inc. (holding company), Maximat Granby Inc. (holding company), Horizon Devcow Inc. (real estate) and 9060-4976 Québec Inc. (RONA L'entrepôt Granby). Vice President of 9066-7403 Québec Inc. (RONA L'entrepôt St-Hyacinthe) and Rocvale Produits de Béton Inc. (concrete products)

Alain Michel, Corporate Director

Patrick Palerme, Managing Director North America of Global Change Leaders and Corporate Director

James Pantelidis, Chairman of the board of directors of EnerCare Inc. (energy heating) and of Parkland Fuel Corporation (energy downstream) and Corporate Director

Robert Paré, Vice Chairman of the board of directors of RONA, Corporate lawyer and partner at Fasken Martineau Dumoulin LLP (law firm) and Corporate Director

Jocelyn Tremblay, Vice President Corporate Affairs of Vins Philippe Dandurand Inc. (wine agent) and Corporate Director

Jean-Roch Vachon, Chairman of the board of directors of Investissements J.R.V. (holding) and Corporate Director

MEMBERS OF THE EXECUTIVE COMMITTEE

Robert Dutton, President and Chief Executive Officer

Claude Bernier, Executive Vice President, Marketing and Customer Innovations

Dominique Boies, Executive Vice President and Chief Financial Officer

Normand Dumont, Executive Vice President, Merchandising

Paul Jovian, Senior Vice President, Supply Chain

Christian Proulx, Senior Vice President, People and Culture

Luc Rodier, Executive Vice President, Retail

Michael Storfer, Vice President, Commercial and Professional market and President of Noble

TRANSFER AGENT

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700-1500 University Street
Montreal, Quebec H3A 3S8

BANKERS

Bank of Montreal

Bank of Nova Scotia

Caisse Centrale Desjardins

National Bank of Canada

Royal Bank of Canada

EXTERNAL AUDITORS

Raymond Chabot Grant Thornton LLP

Chartered Accountants

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Tel.: 514 599-5100

KEY DATES

Fiscal year-end:

December 30, 2012

Quarterly earnings results release dates:

First Quarter: May 9, 2012

Second Quarter: August 8, 2012

Third Quarter: November 7, 2012

Fourth Quarter: February 21, 2013

Annual General Meeting:

May 9, 2012 at 11:00 a.m. (Eastern Time)

RONA's head office

Academy Room

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“THE CHALLENGE OF OUR INDUSTRY IS TO CREATE A NEW SHOPPING EXPERIENCE THAT LEVERAGES THE LATEST TECHNOLOGY TO MEET OUR CUSTOMERS’ NEEDS. IT IS A BATTLE OF CREATIVITY AND INNOVATION.” Robert Dutton

