



**PRESS RELEASE
FOR IMMEDIATE RELEASE**

**RONA ANNOUNCES 2007 RESULTS AND INTRODUCES NEW INITIATIVES TO
REVITALIZE SALES AND OPTIMIZE NETWORK**

2007 Highlights

- \$4.8 billion in sales in 2007: On a comparable basis, adjusting for the extra week in 2006, sales increased 7.1%
- \$400.2 million in operating income: On a comparable basis, operating income increased 6.3%
- Net earnings of \$185.1 million, or \$1.59 per share diluted: On a comparable basis, a slight decrease in net earnings compared with 2006
- At the end of the year, the acquisition of Dick's Lumber closed in British Columbia, and several new initiatives were introduced to revitalize sales and optimize the RONA network

Boucherville, Quebec, February 20, 2008 – RONA inc. (TSX: RON), the largest Canadian retailer and distributor of hardware, renovation and gardening products announced a sales increase of 7.1% in 2007 on a comparable basis (average weekly sales, to adjust for the additional week in 2006). The year's operating income stood at \$400.2 million, up 6.3% on a comparable basis. Net earnings were \$185.1 million, or \$1.59 per share, diluted, down 2.9% from 2006. On a comparable basis, net earnings actually declined slightly. Finally, results were affected at year-end by a major slowdown in the sales of building materials and by a non-recurring after-tax expense of \$1.4 million recorded for an in-depth study of the Company's supply chain, which produced recommendations that will result in efficiency improvements beginning in 2008.

RONA ended its 7-07 Program with annualized sales of over \$6.2 billion. At the beginning of this program, launched at the end of 2005, RONA achieved sustained growth in retail sales, but market conditions much more difficult than foreseen when the program was launched, slowed advances in all four of the Company's growth vectors.

RONA's President and CEO Robert Dutton, stated: "In light of the increasing downward pressure on sales throughout the retail industry and a decrease in single-family housing starts last year, RONA did not achieve its objective of \$7 billion in annualized retail sales in 2007, as outlined in the 7-07 Program. But for the last two years, this program really helped us improve our positioning and enhance our awareness, especially in Western Canada and Ontario," he said. "We also integrated 3,000 new employees into the RONA network, completed six major acquisitions, recruited nearly 100 dynamic independent dealer-owners and opened 18 new stores, including six in Western Canada and seven in Ontario. We also surpassed our sales objectives for RONA private brand products and introduced a number of innovative, value-added services, including the Project Guide.

As we go forward with these promising initiatives, we will officially launch our new 2008-2011 Strategic Plan next week, breathing fresh life into our improvement and development projects."

"RONA is taking positive action in the face of the widespread economic uncertainty that has been affecting consumer confidence for the last few months. In order to continue to improve our competitive position and take advantage of an eventual recovery in our sector, we have implemented a series of measures to stimulate sales and improve efficiency. We plan to pursue our development accordingly in the coming quarters, and to make it an important focus of our 2008-2011 Strategic Plan. We will also continue to invest in employee training and development, in order to be the industry benchmark for quality service and shopping experience. Finally, RONA will continue to innovate and attract customers with innovative concepts and services that allow us to offer a complete solution for all the home renovation and decoration needs of Canadian consumers," Dutton concluded.

FISCAL YEAR

RONA's fiscal year ends on the last Sunday of each year and usually has 52 weeks. For interim disclosure purposes, the quarters end on the last Sunday of March, June, September and December and have 13 weeks. Fiscal 2005 ended on December 25 while fiscal 2006 ended on December 31 and fiscal 2007 ended December 30. Giving fiscal 2006 53 weeks and the fourth quarter of 2006 14 weeks. In this *Press release* we have sometimes made appropriate adjustments to make the comparison exercise with fiscal 2006 or its last quarter more meaningful by comparing the figures on a weekly average basis. These adjustments are explicitly noted, where applicable.

HIGHLIGHTS FOR THE YEAR ENDED DECEMBER 30, 2007

Sales up 5.1%

RONA's consolidated sales include wholesale distribution sales, retail sales of the corporate stores, and RONA's share of sales from franchise stores.

Consolidated sales for 2007 stood at \$4,785.1 million, or 5.1% higher than the \$4,551.9 million posted in 2006. Brought down to a weekly basis to eliminate the difference in the length of the two years, consolidated sales actually rose by 7.1%. This growth stems largely from acquisitions and store openings. Excluding contributions from major acquisitions, such as Noble Trade, Curtis Lumber, and Mountain Building Centres, weekly consolidated sales rose by 2.9%. This organic growth comes from sales generated by new stores opened over the last 12 months and the acquisition of affiliate stores.

Excluding the drop in average price of forest products and the impact of the 53rd week in 2006, same-store sales decreased by 0.8% over the year. This decline reflects the slowdown in our entire sector over the last two years. The Canadian market is experiencing significant regional disparities, however, which is reflected in our retail network sales. Same-store sales increased in Western Canada, thanks to strong economic growth in the region. On the other hand, in Quebec and Ontario, they decreased following heavy losses in manufacturing jobs in the industrial heartland of Canada over the last two years, which grew even more pronounced in 2007.

OPERATING INCOME UP 4.3%

Operating income reached \$400.2 million in 2007, up 4.3% over 2006. On a comparable basis, operating income increased 6.3% compared to 2006.

The operating margin was stable at 8.4%. Although gross margins were maintained in 2007, the operating margin was under pressure, especially at the end of the year, when same-store sales decreased, since some operating costs are difficult to compress in the short term. In addition, we made extensive efforts to stimulate sales and traffic in stores across the RONA network. These unfavourable elements were counterbalanced by efficiency improvements implemented during the year. Efficiency improvements are also part of a long-term trend that reflects sustained investment in our infrastructure and distribution technology as well as purchasing and operating synergies achieved through the integration of the companies we have acquired over the years.

The evolution of our operating margin also reflects two factors related to our income mix. On one hand, the Company's growing presence in the retail sector pushes that margin up, since operating margins are higher in this sector than in distribution. On the other hand, our breakthrough in the construction materials segment, through acquisitions over the last two years, has had an inverse impact on our operating margin, since this segment generates margins lower than our consolidated margin. That said, these acquisitions produce a return on investment that is equally good. Finally, RONA is still seeking to increase operating margins through efficiency improvement initiatives.

Net earnings

Net earnings for 2007 stood at \$185.1 million, or \$1.59 per share, diluted, compared to \$190.6 million in 2006, or \$1.64 per share, diluted. This drop stems mainly from the extra week in 2006. On a comparable number of weeks (based on average weekly sales), net earnings for 2007 were actually down slightly compared to 2006. Net earnings were also affected by a non-recurring expense of \$1.4 million at the end of 2007 for an exhaustive study of the Company's supply chain. This study has already allowed us to undertake an extensive optimization exercise for the supply chain, which will significantly improve our operational efficiency starting in 2008.

Certain investments dedicated to the expansion of the RONA network contribute only gradually to our earnings but generate full depreciation and interest expenses immediately. Despite the general slowdown in the growth of the renovation and construction industry, RONA is continuing to invest in several development projects that will guarantee the Company a stronger position in the coming years.

Our net earnings varied over the year: the second and third quarters showed an increase in net earnings, but the gains were erased by the first and fourth quarter results. The expansion of our activities in the construction materials sector added to the seasonal changes in our sales.

FINANCIAL HIGHLIGHTS FOR THE QUARTER ENDED DECEMBER 30, 2007**Sales down 4.8%**

Consolidated sales for the quarter stood at \$1,087.0 million, 4.8% less than a year before. On a comparable basis (weekly average), consolidated sales increased 2.6%. This growth stemmed from corporate and franchise sales. On a weekly basis, organic growth of consolidated sales (consolidated sales less major acquisitions) was -1.9%.

Excluding the impact of the extra week in 2006 and the 0.4% decline in the average price of forest products, same-store sales decreased by 2.1% this quarter.

Operating income down 12.5%

In fourth quarter 2007, our operating income stood at \$75.9 million, down 12.5% from the corresponding quarter in the previous year. Excluding the impact of the extra week, the operating income would have been down by 5.7%.

The operating income represents 7.0% of quarterly sales, compared to 7.6% for the year before. This decline is mainly attributable to a non-recurring expense of \$2.1 million incurred and recorded at the end of 2007 for an in-depth study of the Company's supply chain, and to the effect of the additional week in 2006 which absorbed a larger portion of the fixed costs during the fourth quarter 2006. The operating margin was also under pressure, especially at the end of the year, when same-store sales decreased - some operating costs are difficult to compress in the short term. In addition, we made extensive efforts to stimulate sales and traffic in stores across the RONA network.

Net earnings

Net earnings for the quarter were \$30.5 million, or \$0.26 per share after dilution, compared to \$38.1 million in 2006, or \$0.33 per share after dilution. This decline is mainly due to the extra week in 2006, as well as a non-recurring after-tax expense of \$1.4 million recorded in the quarter for an exhaustive study of RONA's supply chain. This study has already allowed us to undertake an extensive optimization exercise for the supply chain, which will significantly improve our operational efficiency beginning in 2008. Finally, a full range of activities was undertaken during the quarter to stimulate sales in what turned out to be a very difficult business climate.

In addition, as mentioned in the analysis of our annual results, certain investments dedicated to the expansion of the RONA network contribute only gradually to our earnings but generate full depreciation and interest expenses immediately. Because of this, several new stores that opened during the quarter created short-term downward pressure on the Company's net earnings.

CASH FLOWS AND FINANCIAL POSITION

In 2007, operations generated cash flows of \$286.2 million compared to \$283.3 million for the year before. Net of changes in working capital associated with the growth and development of the retail and distribution networks, operations generated cash flows of \$276.8 million, against \$283.4 million in 2006.

Acquisitions resulted in a net cash outflow of \$228.5 million, or 35.3% more than in 2006. Acquisitions in 2007 strengthened our network in Ontario and Western Canada, mainly in the specialized store segment.

In 2007, we disbursed \$233.7 million in capital investments, in keeping with the capital budget unveiled a year ago. These investments were dedicated mainly to the expansion of our retail network through constructing new stores and retrofitting, renovating and upgrading existing stores to reflect our new concepts. As we do each year, we made substantial investments in ongoing improvements to our information systems with a view to boosting operating efficiency.

The investments and acquisitions made in 2007 were mainly financed through cash flows generated through operations. Moreover, we also increased our long-term debt by a net amount of \$121.4 million, mostly from our existing credit facilities.

Our balance sheet remains strong. On December 30, 2007, the total debt/capital ratio stood at 33.1%, compared to 30.9% at the close of 2006. The Company plans to improve this ratio by focusing on a disciplined use of its capital and additional efficiency improvement measures, thus increasing our financial flexibility in the coming quarters.

Our working capital (excluding instalments on long-term debt) stood at \$697.5 million at year-end, compared to \$663.2 million a year earlier. This increase is a consequence of network growth, both organic and acquired. Inventory stood at \$856.3 million at year-end, up 8.3% over the previous year related to expansion through acquisitions and the opening of many new stores at the end of the year.

The equity/assets ratio reached 53.4% at the end of 2007, compared to 53.8% on the same date in 2006.

Our operations generate strong cash flows. With a relatively low debt load and fixed rates on most of our long-term debt, that is, our \$400 million debenture, we have good liquidity and access to over \$300 million in additional credit at competitive rates. Last July we extended the maturity of our renewable credit facility by one year, from October 6, 2011 to October 6, 2012. RONA has sufficient resources to pursue disciplined growth along its four growth vectors: same-store sales growth, new store construction, dealer recruitment, and acquisitions.

In 2008, our capital spending program will amount to approximately \$240 million. Of this sum, about \$180 million will be spent on the construction, refit or renovation of stores and acquisition of land. Another \$20 million will be spent to expand the distribution network in order to support the rapid expansion of our network in the west. Finally, some \$40 million will be spent on ongoing improvements to our information systems.

OUTLOOK

RONA management believes that the slowdown in our sector over the past quarters is the result of economic conditions. RONA's long-term development has the benefit of favourable structural factors, notably that Canada's working population, age 25 to 55, is showing a growing interest in home renovation and gardening, and the baby boomers, who account for about 30% of the population, are approaching early retirement and retire in better physical and financial shape than any previous generation.

In Canada, the existing housing stock is also aging: over 80% of homes are more than 15 years old and will require major maintenance work in the near future. Moreover, new housing starts, housing resales and the average selling price of homes have all seen big increases in the last three years. The Canadian market is, therefore, seeing many new owners with greater borrowing power, representing a highly favourable environment for the home improvement business.

The American economy has been experiencing a major correction in the real estate market over the past few quarters. Housing starts and resales have dropped significantly, and the average price of homes has stopped increasing. The situation is very different in Canada, where all of RONA's sales are based. The drop in housing

starts is much less pronounced than in the United States, and resales are still climbing despite CMHC predictions of a drop. The number of housing starts remains at historically high levels, and resales have reached new records, boosting housing prices in many regions.

Nevertheless, the reduction in starts of single-family homes, combined with a slowdown in the growth of housing resales and the negative impact of the stronger Canadian dollar, is influencing the behaviour of Canadian consumers in relation to renovation projects. While consumer confidence is high compared to historic levels, it continued to sag in January 2008 after the significant decline at the end of 2007. Canadian consumers seem worried about the short-term economic prospects. In addition, the rise of the Canadian dollar also seems to have encouraged some consumers to spend their disposable income abroad. RONA management believes that these two factors could partly explain current downward pressure on same-store sales in our industry. It is worth noting, however, that high volumes of housing resales and residential construction have historically led to significant renovation expenditures in the following years. This anxiety about spending on certain consumer goods may quickly dissipate when the economic uncertainty settles down.

Despite everything in the short term, the issues mentioned above are cutting into the growth of our market. In this context, and leaving aside the 2008-2011 Strategic Plan that we will unveil shortly after the publication of this *Press release*, we have already undertaken vigorous measures to reinvigorate our sales and profitability. These numerous incremental measures can be implemented quickly and they will affect all areas of our operations:

- Various measures and campaigns will be implemented to energize sales in the existing network, in both affiliate dealer-owners and our own network of corporate and franchise stores. Our first priority is to improve service in our stores. We have a number of strong promotion and loyalty levers – from the RONA credit card and gift cards to Air Miles™ and our Olympic Games promotions – that could be used more often and differently.
- We also plan to improve and speed up the launch of our new stores and the integration process for new affiliate dealer-owners and acquisitions, in order to accelerate their contribution to the expansion of our network. Finally we will proceed with the sale of certain non-strategic assets.
- We are setting up recruitment efforts to accelerate expansion of our network.
- Various initiatives will improve our consolidated gross margin: for example, reducing inventory loss related to theft and breakage (“shrink”) across the supply chain, optimizing supply synergies, etc.
- We are implementing a series of measures to increase our operational efficiency at every level: optimization of merchandise flows, inventory reduction, refinement of distribution and transport operations processes, etc.
- We are reviewing some long-established corporate stores that chronically underperform. Depending on their strategic potential, these stores will be restructured.
- We will continue to innovate by developing new store concepts and sales approaches.

Within our 2008-2011 planning horizon, RONA aims to be recognized as the industry leader in terms of service quality, operational efficiency and innovation, and sustainable development. RONA management intends to energetically pursue consolidation of the Canadian renovation market and to continue to increase our market share while maximizing earnings and return on investment.

ADDITIONAL INFORMATION

The MD&A and unaudited financial statements for 2007 and fourth quarter 2007 can be consulted on the Company's website at www.rona.ca, in the Investor Relations section, and at www.sedar.com. The Company's Annual Report can also be found on its website and on the SEDAR website, along with other information about RONA, including its Annual Information Form.

CONFERENCE CALL WITH THE FINANCIAL COMMUNITY

On *Wednesday, February 20, 2008 at 11:30 AM (EST)*, RONA will hold a conference call for the financial community. To join the call, please dial 514-861-0443 or 1 866 542-4146. To follow the call online, go to <http://events.startcast.com/events/153/B0019>.

RONA 2008 INVESTORS DAY

RONA will unveil its 2008-2011 Strategic Plan within the framework of its 2008 Investors Day, which will be held February 27, 2008, in Montréal. For the corporate investors and financial analysts who would like to attend this event, please contact Elaine Pelletier by email at elaine.pelletier@rona.ca or by telephone at (514) 599-5900 extension 8215. For those who won't be able to attend the event and meet with the management team, a live Internet audio broadcast of the presentations will be accessible at www.rona.ca, or via conference call in listen-only mode by dialing (514) 861-1681 or 1 866 299-8690. The presentation slides will be posted on our website prior to the event.

NON-GAAP PERFORMANCE MEASURE

In this *Press release*, as in our internal management, we use the concept of earnings before interest, taxes, depreciation, amortization and non-controlling interest (EBITDA), which we also refer to as operating income. This measure corresponds to "Earnings before the following items" in our consolidated financial statements.

While EBITDA does not have a meaning standardized by generally accepted accounting principles in Canada (GAAP), 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. Given that it is not standardized, EBITDA cannot be compared from one company to the next. Still, we establish it in the same way for the segments identified, and, unless expressly mentioned, our method does not change over time.

EBITDA must not be considered separately or as a substitute for other performance measures calculated according to GAAP but rather as additional information.

FORWARD-LOOKING INFORMATION

This *Press release* includes “forward-looking statements” that involve risks and uncertainties. All statements other than statements of historical facts included in this *Press release*, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the Company, may constitute forward-looking statements within the meaning of the Canadian securities legislation and regulations. 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 Company's actual results to differ from current expectations, please also refer to the Company's public filings available at www.sedar.com and at 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 Company's current Annual Information Form. The forward-looking statements in this *Press release* reflect the Company's expectations as of February 19, 2008, and are subject to change after this date. The Company 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.

ABOUT RONA

As the largest Canadian distributor and retailer of hardware, home renovation and gardening products, RONA offers a complete solution for all home improvement and decorating needs. RONA operates a network of close to 680 franchise, affiliate and corporate stores of various sizes and formats. With over 27,000 employees working under its family of banners in every region of Canada and more than 15 million square feet of retail space, the RONA store network generates over \$6.2 billion in annual retail sales.

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ANNUAL MANAGEMENT'S DISCUSSION AND ANALYSIS FISCAL YEAR ENDED DECEMBER 30, 2007

RONA inc. ("RONA", "we" or the "Company") is Canada's leading retailer and distributor of home improvement, hardware and gardening products. The Company operates or serves a network that, as of February 19, 2008, included 679 corporate, franchise and affiliate stores, as well as nine distribution centres.

RONA's sales include:

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

FINANCIAL STATEMENTS

RONA's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are expressed in Canadian dollars. The Company has filed its unaudited consolidated financial statements for the year ended December 30, 2007 with the Canadian Securities Administrators. These statements can be viewed online at www.sedar.com or on RONA's website at www.rona.ca. This *Management's Discussion and Analysis* ("MD&A") should be read in conjunction with the Company's financial statements and related notes.

NON-GAAP PERFORMANCE MEASURE

In this report, as in our internal management, we use the concept of earnings before interest, taxes, depreciation, amortization and non-controlling interest (EBITDA), which we also refer to as operating income. This measure corresponds to "Earnings before the following items" in our consolidated financial statements.

While EBITDA does not have a meaning standardized by generally accepted accounting principles in Canada (GAAP), it is widely used in our industry and financial circles to measure the profitability of operations, excluding tax considerations and the cost and use of capital. Given that it is not standardized, EBITDA cannot be compared from one company to the next. Still, we establish it in the same way for the segments identified, and, unless expressly mentioned, our method does not change over time.

EBITDA must not be considered separately or as a substitute for other performance measures calculated according to GAAP but rather as additional information.

STOCK SPLIT

On March 22, 2005, RONA split its common shares on a two-for-one basis. In this report, the number of shares and per-share amounts reflect this stock split retroactively, where applicable.

FISCAL YEAR

RONA's fiscal year ends on the last Sunday of each year and usually has 52 weeks. For interim disclosure purposes, the quarters end on the last Sunday of March, June, September and December and have 13 weeks. Fiscal 2005 ended on December 25, fiscal 2006 ended on December 31 while fiscal 2007 ended on December 30. Therefore, fiscal 2006 had 53 weeks and the fourth quarter of 2006 had 14 weeks. In this MD&A, we have in certain instances made appropriate adjustments to make the comparison exercise with fiscal 2006 or its last quarter more meaningful by comparing the figures on a weekly average basis. These adjustments are explicitly noted, where applicable.

HIGHLIGHTS OF THE LAST THREE YEARS

RONA posted net earnings of \$185.1 million for the year ended December 30, 2007, compared to \$190.6 million for the year ended December 31, 2006, a decrease of 2.9%. Net earnings for 2006 were up 8.9% over the \$175.2 million posted in 2005. Earnings per share stood at \$1.61 (\$1.59 after dilution), compared to \$1.66 (\$1.64 after dilution) in 2006 and to \$1.53 in 2005 (\$1.51 after dilution). The impact of the extra week in 2006 was to inflate sales growth, operating income and net earnings over 2005; on the other hand, a strict comparison of sales, operating income and net earnings in 2007 with 2006 undervalues RONA's true sales performance. Excluding the impact of the extra week, based on a weekly average for the year, net earnings for 2007 would have been slightly lower.

RONA: key figures for 2007, 2006 and 2005 (in millions of dollars, except number of shares and earnings per share)

	Fiscal years ended		
	December 30, 2007 (52 weeks)	December 31, 2006* (53 weeks)	December 25, 2005** (52 weeks)
Sales	4,785.1	4,551.9	4,026.4
Net earnings	185.1	190.6	175.2
Earnings per share***	\$1.61	\$1.66	\$1.53
Diluted earnings per share***	\$1.59	\$1.64	\$1.51
Total assets	2,482.5	2,108.4	1,667.6
Long-term debt	602.5	455.3	230.3
Number of shares outstanding at year-end	115,412,766	114,935,569	114,412,744

N.B. The Company did not pay dividends during these three years.

* See "Fiscal Year" above.

** At the beginning of 2006, the Company adopted EIC-156, *Accounting by a Vendor for Consideration Given to a Customer* (volume rebates). The sales figures for 2005 were adjusted retroactively.

*** Earnings per share give retroactive effect to the two-for-one stock split of March 2005.

Consolidated sales rose 5.1% in 2007 and 13.1% in 2006. On a comparable basis (weekly average), sales increased by 7.1% in 2007 and by 10.9% in 2006. In 2006 as in 2007, sales growth was generated both internally and through acquisitions.

More specifically, RONA's development relies on four growth vectors:

- Growing sales within the existing network, that is, same-store sales of our corporate, franchise and affiliate stores
- Building new corporate and franchise stores
- Recruiting new affiliates
- Acquisitions

At the end of 2005, we launched our "7-07 Program" with a view to using the four growth vectors described above to boost retail sales¹ to \$7 billion annually by the end of 2007. At the end of 2005, sales were almost at the \$5 billion mark and now they are over \$6.2 billion.

RONA completed several acquisitions between 2005 and the end of 2007, the largest being TOTEM Building Supplies in April 2005, which added some \$260 million in annual sales. In the first year of the 7-07 Program, annual sales growth across the network was in line with our objectives. But in 2007, various factors resulted in lower growth than planned. Beginning in early 2006, the increase in same-store sales was subject to growing pressure in economic conditions that became increasingly harsh. The same conditions made us delay the opening of some stores in 2007, slowing the contribution of new stores to our sales growth. We met our recruitment objectives in 2006 but it has been more difficult in 2007. Finally, acquisitions in 2006 and 2007 contributed about \$550 million to our annualized sales, even though we adopted a more prudent pace in terms of acquisitions toward the end of 2007.

In 2006, we acquired Chester Dawe in Newfoundland (March), Matériaux Coupal, in Quebec (April), Curtis Lumber in British Columbia (July), and Mountain Building Centres in British Columbia (August). Our combined acquisitions in 2006 represent over \$300 million in annual sales. In 2007, we concentrated our acquisitions in the commercial and professional sector, notably with Noble Trade, a leading plumbing specialist in Ontario, and Dick's Lumber, a construction materials leader in British Columbia. In all, the acquisitions completed in 2007 added over \$250 million in consolidated annualized sales, and also reinforced our competitive position in British Columbia and Ontario.

Our acquisitions in 2006 and 2007 were mostly concentrated in the market segment known as "industrial, commercial and institutional" (ICI). This segment totals some \$70 billion in annual sales in Canada and it presents very promising growth potential for RONA. Concentrating our acquisitions in this segment for the last two fiscal years has quickly given us a critical mass and national presence, which will serve as the basis for our future growth in the ICI segment.

¹ "Retail sales" means the annualized combined sales of corporate, franchise and affiliate RONA stores, all banners combined, regardless of ownership. They differ from consolidated sales, also discussed in this MD&A, which include corporate stores sales, RONA's share of sales generated by franchise stores in which it has a stake, royalties from franchise store sales, and distribution sales to affiliate and franchise stores.

Organic sales growth (consolidated sales excluding major acquisitions) was 6.0% in 2006 and 0.9% in 2007. In 2006, same-store sales were up by 1.4% after correcting for the extra week in the year and eliminating the impact of changes in forest product prices. The remainder of our organic growth in 2006 was predominantly fuelled by the construction of new stores and affiliate recruitment. In 2007, same-store sales dropped by 0.8% after the same adjustments.

From 2005 to 2007, our operating margin (EBITDA/sales) slightly increased from 8.3% in 2005 to 8.4% in 2006 and 2007. This improvement of 10 basis points masks the success of our efficiency improvements throughout the supply chain and distribution network. In fact, our EBITDA margin benefited from internal efficiency improvement measures as well as acquisitions made in recent years, including the resulting synergies. The efficiency improvements take many forms: more favourable procurement conditions negotiated with vendors, more efficient distribution logistics associated with network expansion, better store performance, and enhanced efficiency thanks to the continuous upgrading of our technology platform.

On the other hand, many of our acquisitions in the last two years have been in the building materials segment, where operating margins are lower than in renovation centres and hardware stores – although the return on investment is comparable to that of our retail activities. We have also stepped up our efforts to stimulate sales in a context where general market growth has slowed significantly in 2007, creating further downward pressure on our operating margin. As mentioned earlier, the operating margin nevertheless benefited from the favourable impact of a general improvement in operating efficiency and the impact of acquisitions made in recent years, including the resulting synergies.

UPDATE ON THE COMPANY'S STRATEGIC ORIENTATION

Economic Conditions

Overall, Canadian economic conditions remained favourable to the construction and renovation industry in 2007, with significant regional differences. The economy in the western part of the country continued to benefit from a robust demand for natural resources, while consumer confidence in the eastern region, traditionally the manufacturing hub of Canada, continued to be negatively affected by the loss of over 130,000 jobs in the manufacturing sector, resulting largely from the rapid climb of the Canadian dollar against its American counterpart.

Economic conditions deteriorated in the last quarter of 2007. Economic growth slowed in Canada, mainly due to the erosion of Canada's trade balance in the wake of the rapid growth of the Canadian dollar against the American. In January 2008, the Bank of Canada revised its growth predictions for 2008 downward, especially for the first semester, but slightly raised its predictions for 2009. Its current forecast targets 1.8% growth in 2008 and 2.8% in 2009.

In terms of interest rates, the Bank of Canada kept its target for the overnight rate steady within the tight spread of 4.25% and 4.50% throughout 2007.

The strength of the Canadian economy is reflected in recent housing resale statistics. According to statistics published by the Canadian Real Estate Association (CREA), resale housing activity once again made solid advances in 2007. This high activity level

also stimulated the average resale price for homes, which increased more than 11% over the last 12 months in Canada's main residential markets.

Housing starts across the country in 2007 were 0.4% higher than in 2006, despite an abrupt slowdown in December, which the Canada Mortgage and Housing Corporation (CMHC) attributed to the early and severe onset of winter. That said, the growth is mainly attributed to multifamily housing (+3.2%), which generates relatively few retail sales (the building materials used for this type of construction are different from those of single-family houses), while the number of housing starts for single-family homes declined somewhat (-2.0%).

Despite the general strength of the Canadian economy, consumer confidence, as measured by the Conference Board of Canada, gradually eroded over the course of 2007, before dropping radically at the end of the year. There is no doubt a connection with the softening in the growth of retail sales observed in renovation centres and hardware stores, which posted slower growth in 2007. While retail sales remained higher than their 2006 levels, they began to decrease month by month starting in summer 2007, a phenomenon we have not observed since 2002.

Indeed, some renovation spending is actually leisure spending, and in this sense our sector is in competition with other types of discretionary spending. So RONA management believes there may be a connection between the slower sales in renovation centres and hardware stores and the strong growth in Canadian spending abroad noted by Statistics Canada in 2007: up over 11% in the first three quarters of the year.

Finally, the negative impact of the fall in the average price of forest products was 0.8% of sales in our corporate and franchise stores and 0.4% for distribution sales in 2007.

The RONA network

RONA: number of stores in 2008* and 2007**

	Big-box	Proximity	Specialized – Consumers	Specialized – ICI***	
Corporate	RONA RONA Le Régional RONA L'entrepôt RONA Home & Garden Réno-Dépôt	RONA Home Centre TOTEM RONA Le Rénovateur	RONA Building Centre RONA L'express Matériaux RONA Lansing RONA Cashway Chester Dawe	Curtis Lumber Matériaux Coupal Noble Trade Dick's Lumber	236 (215 in 2007)
Franchise	RONA Le Régional RONA L'entrepôt		RONA Cashway		22 (22 in 2007)
Affiliate		RONA Le Quincaillier RONA Le Rénovateur RONA L'express RONA Hardware RONA Home Centre	RONA L'express Matériaux RONA Building Centre BOTANIX		421 (405 in 2007)
	77 (72 in 2007)	327 (326 in 2007)	235 (228 in 2007)	40 (16 in 2007)	679 (642 in 2007)
9 distribution centres (7 in 2007)					

* February 19, 2008.

** February 20, 2007.

*** Institutional, commercial and industrial

On February 19, 2008, the RONA network comprised 679 stores. During the year, 37 stores were added to the network. Acquisitions added 26 points of sale. Six new RONA big-box stores also opened: four in Ontario, one in Alberta, and one in Quebec. The big-box store in Brossard, Quebec, moved to a new, more promising site and the big-box store in Pont-Viau (Laval) in Quebec, was transformed into a proximity store. Three proximity stores also opened in 2007. The first in Edmundston, New Brunswick, the second in Leamington, Ontario, and the most recent, in Collingwood, Ontario. With the openings in Leamington and Collingwood, two small specialized consumer stores closed in these regions. In addition, 27 affiliate stores were recruited and three affiliate stores in Quebec were acquired by RONA, becoming corporate proximity stores. Finally, other corporate or affiliate stores closed or merged.

7-07 Program

RONA's development relies on four growth vectors:

- Growing sales within the existing network, that is, same-store sales of our corporate, franchise and affiliate stores
- Building new corporate and franchise stores
- Recruiting new affiliates
- Acquisitions

At the end of 2005, we launched our "7-07 Program" with a view to using the four growth vectors described above to boost retail sales to \$7 billion annually by the end of 2007. At the publication date of this MD&A, annual retail sales stood at more than \$6.2 billion. The shortfall compared to the program's objective is attributable to softening same-store sales growth, the deferral of construction and opening of some planned stores, and a slowdown in the pace of recruiting affiliate dealer-owners in 2007.

In fact, the increase in same-store sales was subject to growing pressure in economic conditions that became increasingly harsh. The same conditions made us delay the opening of some stores in 2007, slowing the contribution of new stores to our sales growth. We met our recruitment objectives in 2006 but experienced a setback in 2007 due to the rapid deterioration of market conditions. Finally, acquisitions in 2006 and 2007 contributed about \$550 million to our annualized sales, even though we adopted a more prudent pace in terms of acquisitions toward the end of 2007.

In 2007, we completed two major acquisitions. At the start of the second quarter, we closed the acquisition of Noble Trade. Since that time, Noble Trade has recorded sales of over \$120 million and maintained a high operating margin. This acquisition fits perfectly with RONA's strategic plan. After the acquisitions of Matériaux Coupal and Curtis Lumber in 2006, the acquisition of Noble Trade further accentuates RONA's presence among specialized stores that serve commercial and professional customers. Noble Trade is a very profitable company with a proven management team, and it provides a high-quality platform from which we can continue RONA's development in a market with strong potential for consolidation.

In December, RONA completed the acquisition of 100% of the operating assets and real estate of the Dick's Lumber specialized chain in British Columbia. The company generated more than \$100 million in sales in the 12 months before its acquisition, as well as solid profit margins in its sector. This transaction follows the 2006 Curtis Lumber and Mountain Building Centres acquisitions and the addition of 14 stores in British Columbia

in the past two years through store openings and the recruitment of independent dealer-owners. With the addition of Dick's Lumber's three specialized stores in the Vancouver Area, RONA will have 54 retail locations in BC. To pursue our growth through acquisitions, RONA is presently studying several other interesting opportunities.

Organic sales growth (consolidated sales less major acquisitions) stood at 2.9% in 2007 (after correcting for the extra week in 2006). Organic sales growth was driven primarily by the construction of new corporate stores. Same-store sales decreased by 0.8% in 2007, excluding the effect of the extra week in 2006 and the 0.8% drop in the average price of forest products.

In 2006, eight new stores were opened, which contributed to the growth of sales in 2007. These included five big-box stores: two in Quebec (Charlemagne and Rimouski), one in Ontario (Barrie), one in Manitoba (Winnipeg) and one in British Columbia (Victoria/Langford). The remaining three are corporate proximity stores in Manitoba (Winkler) and Alberta (Spruce Grove and Leduc). These stores have not yet reached their full potential but show a general growth in sales.

Ten new stores opened in 2007, most of them in the second half of the year. These stores are still in their implementation phase in their respective markets and will progressively achieve cruising speed.

The stores opened in 2007 add more than just retail sales area. For example, the new store in Pierrefonds, Quebec is based on a new mid-size big-box store concept. At 80,000 square feet, the store offers a selection of over 40,000 products. The store in Edmunston, New Brunswick, is the leading edge for proximity stores, with 35,000 square feet and a selection of 20,000 products. The stores in Leamington and Collingwood, Ontario, both have 52,000 square feet and over 22,000 products. They also have an outdoor lumberyard, a gardening centre and a covered warehouse.

Toward the end of the year, RONA opened four new big-box stores and relocated a fifth. These five stores, measuring 100,000 square feet each and located in Whitby South, Waterdown and London (Ontario), Calgary North (Alberta) and Brossard (Quebec), showcase RONA's most recent innovations in signage and specialized boutiques. They also offer the brand new Project Guide service as well as installation services.

For the development of future stores, we have a bank of promising sites that have been approved by the Company's board of directors. This portfolio of approved sites assures the development of enough strategic locations for the next five years.

In terms of recruiting affiliate dealer-owners, we recruited 27 new stores in 2007, adding 208,000 square feet to our network (not including outdoor storage areas) and over \$81 million to our annual retail sales. This result is below our objective of \$200 million for the year. This shortfall does not undermine our fundamental conviction concerning the recruitment of new affiliate dealer-owners – that is, that affiliation with RONA is the best alternative in the country for the support and development of independent dealer-owners. We are convinced that the tightening of the market improves the context for recruiting new affiliates. It seems, however, that current market conditions are forcing some dealer-owners to put greater focus on the short-term profitability of their operations. In the middle term, these conditions should prove favourable for us, however, when these dealer-owners decide they need to join a strong, well-positioned

and growing network. Since the fourth quarter of 2007 we have intensified our recruitment efforts and targeted strategic players in certain purchasing groups. Considering the numerous meetings we held with independent dealers in the last few months, Management remains confident about the strong growth potential of this vector in 2008.

RESULTS

Sales up 5.1%

RONA's consolidated sales include the wholesale distribution sales, retail sales of the corporate stores, and RONA's share of sales from franchise stores.

Consolidated sales for 2007 stood at \$4,785.1 million, or 5.1% higher than the \$4,551.9 million posted in 2006. Brought down to a weekly basis to eliminate the difference in the length of the two years, consolidated sales actually rose by 7.1%. This growth stems largely from acquisitions and store openings. Excluding contributions from major acquisitions, such as Noble Trade, Curtis Lumber, and Mountain Building Centres, weekly consolidated sales rose by 2.9%. This organic growth comes from sales generated by new stores opened over the last 12 months and the acquisition of affiliate stores.

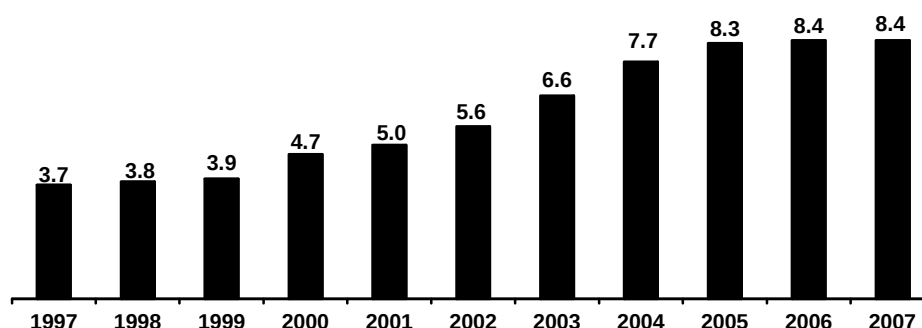
Operating income up 4.3%

Operating income reached \$400.2 million in 2007, up 4.3% over 2006.

The operating margin was stable at 8.4%. Although gross margins were maintained in 2007, the operating margin was under pressure, especially at the end of the year, when same-store sales decreased, since some operating costs are difficult to compress in the short term. In addition, we made extensive promotional efforts to stimulate sales and traffic in stores across the RONA network. These unfavourable elements were counterbalanced by efficiency improvements implemented during the year. Efficiency improvements are also part of a long-term trend that reflects sustained investment in our infrastructure and distribution technology as well as purchasing and operating synergies achieved through the integration of the companies we have acquired over the years.

The evolution of our operating margin also reflects two factors related to our income mix. On one hand, the Company's growing presence in the retail sector pushes that margin up, since operating margins are higher in this sector than in distribution. On the other hand, our breakthrough in the construction materials segment, through acquisitions over the last two years, has had an inverse impact on our operating margin, since this segment generates margins lower than our consolidated margin. That said, these acquisitions produce a return on investment that is equally good. Finally, RONA is still seeking to increase operating margins through efficiency improvement initiatives.

RONA: operating margin (%), 1997-2007



Note: The sales data used in the calculation of operating margin have been adjusted to reflect the application of EIC-156, *Accounting by a Vendor for Consideration Given to a Customer* (volume rebates).

Interest and depreciation

Interest expense for the year totalled \$31.6 million, compared to \$22.1 million in 2006. This increase is partly due to increased indebtedness related to our expansion, including acquisitions in 2006 and 2007, and, to a lesser degree, to the rise in interest rates in 2006 and 2007.

Depreciation for 2007 was \$90.9 million, an increase of 21.9% over 2006, stemming from acquisitions, investments in our distribution infrastructure, new corporate store start-ups, the renovation of existing corporate stores, and the ongoing improvement of our information systems.

Income taxes

Income taxes for 2007 were \$88.1 million, for an effective tax rate of 31.7%. Last year, income taxes were \$92.2 million, for an effective tax rate of 32.1%.

Net earnings

Net earnings for 2007 stood at \$185.1 million, or \$1.59 per share, diluted, compared to \$190.6 million in 2006, or \$1.64 per share, diluted. This drop stems mainly from the extra week in 2006. On a comparable number of weeks (based on average weekly sales), net earnings for 2007 were slightly lower than 2006. Net earnings were also affected by a non-recurring after-tax expense of \$1.4 million at the end of 2007 for an exhaustive study of the Company's supply chain. This study has already allowed us to undertake an extensive optimization exercise for the supply chain, which will significantly improve our operational efficiency beginning in 2008.

Certain investments dedicated to the expansion of the RONA network contribute only gradually to our earnings but generate full depreciation and interest expenses immediately. Despite the general slowdown in the growth of the renovation and construction industry, RONA is continuing to invest in several development projects that will guarantee us a stronger position in the coming years.

Our net earnings varied over the year: the second and third quarters showed an increase in net earnings, but the gains were erased by the first and fourth quarter results. The expansion of our activities in the construction materials sector added to the seasonal nature of our sales.

ANALYSIS OF SEGMENT RESULTS FOR THE YEAR ENDED DECEMBER 30, 2007

RONA: key segment figures for the year ended December 30, 2007

(in thousands of dollars)	2007	2006*	\$ change	% change	% change over average weekly figures for 2006
Segment sales					
Corporate and franchise stores	3,720,214	3,447,426	272,788	7.9 %	10.0 %
Distribution	2,296,054	2,256,894	39,160	1.7 %	3.7 %
Total	6,016,268	5,704,320	311,948	5.5 %	7.5 %
Intersegment sales and royalties					
Corporate and franchise stores	(13,695)	(11,790)	(1,905)	16.2 %	18.4 %
Distribution	(1,217,467)	(1,140,594)	(76,873)	6.7 %	8.8 %
Total	(1,231,162)	(1,152,384)	(78,778)	6.8 %	8.9 %
Sales					
Corporate and franchise stores	3,706,519	3,435,636	270,883	7.9 %	10.0 %
Distribution	1,078,587	1,116,300	(37,713)	(3.4) %	(1.5) %
Total	4,785,106	4,551,936	233,170	5.1 %	7.1 %
Operating income					
Corporate and franchise stores	332,017	316,618	15,399	4.9 %	6.9 %
Distribution	68,190	67,264	926	1.4 %	3.3 %
Total	400,207	383,882	16,325	4.3 %	6.3 %
EBITDA margin					
Corporate and franchise stores	8.96%	9.22%	—	–26bp	—
Distribution	6.32%	6.03%	—	+29bp	—
Total	8.36%	8.43%	—	–7bp	—

*2006 included 53 weeks

Corporate and franchise stores: sales up 7.9% and operating income up 4.9%

Retail sales from the corporate and franchise store segment increased by \$270.9 million, or 7.9% in 2007, reaching \$3,706.5 million. On a comparable basis (weekly average), sales increased by 10.0%. The acquisitions completed in 2007, particularly Noble Trade in April, as well as the 2006 acquisitions of Matériaux Coupal, Curtis Lumber, Chester Dawe and Mountain Building Centres, were an important growth factor. The acquisition of affiliate dealer-owners and their reclassification as corporate stores also contributed to the growth of corporate store sales.

Organic sales growth – that is, without the contribution of major acquisitions – stood at 0.9%, or 2.9% on a comparable basis (weekly average). Organic growth benefited from the contributions of corporate and franchise stores opened in the last 18 months in British Columbia, Alberta, Manitoba, Ontario, Quebec and New Brunswick.

Excluding the drop in average price of forest products and the impact of the 53rd week in 2006, same-store sales decreased by 0.8% over the year. This decline reflects the slowdown in our entire sector over the last two years. The Canadian market is experiencing significant regional disparities, however, which is reflected in our retail network sales. Same-store sales increased in Western Canada, thanks to strong economic growth in the region. On the other hand, in Quebec and Ontario, they

decreased following heavy losses in manufacturing jobs in the industrial heartland of Canada over the last two years, which grew even more pronounced in 2007.

RONA: change in same-store sales, 2007 vs 2006

	% change
Same-store sales	-2.6%
Impact of 53 rd week in 2006	-1.0%
Impact of drop in average price of forest products	-0.8%
Same-store sales, with price of forest products held constant and after elimination of the extra week in 2006	-0.8%

Retail operating income stood at \$332.0 million, compared to \$316.6 million in 2006. This increase of \$15.4 million, or 4.9%, stems mainly from recent acquisitions, especially the 2007 acquisition of the plumbing specialist Noble Trade and a number of other acquisitions completed in 2006. The increase can also be attributed to additional measures taken to improve operating efficiency, to synergies related to acquisitions, and to the acquisition of affiliate stores.

The sector's operating margin was 8.96%, compared to 9.22% in 2006, a decline of 26 basis points. As explained in the analysis of the consolidated results, the operating margin was under pressure at the end of the year because of the drop in same-store sales: some operating costs are difficult to compress in the short term. In addition, our breakthrough in the construction materials segment in the last two years has had a negative impact on our operating margin because this segment generates margins lower than our consolidated margin. That said, these acquisitions produce a return on investment that is equally good. Furthermore, throughout the year we stepped up our promotional efforts to stimulate sales and traffic in the RONA network. The negative elements were also partly counterbalanced by efficiency improvement measures introduced early in the second quarter.

Distribution: sales down 3.4% and operating income up 1.4%

Distribution sales, including intersegment sales, comprise all sales made by the RONA distribution infrastructure to corporate, franchise and affiliate stores. Distribution sales net of intersegment sales encompass sales to affiliate and franchise stores only, excluding RONA's share in these stores, where applicable.

Distribution sales rose 1.7% in 2007 to \$2,296.1 million. On a comparable basis (weekly average), the segment's sales rose 3.7%. This growth reflects the expansion and performance of the affiliate store network. The dealer-owners recruited in 2006 and early in 2007 are gradually integrating into the RONA network and contributing to distribution sales growth.

Net of intersegment activities, distribution sales dropped 3.4% to \$1,078.6 million in 2007. On a weekly average basis, they dropped 1.5%. Between the two comparison years, we acquired all or the majority of the shares of a certain number of affiliates. Sales made to these stores were eliminated from distribution sales. Without this factor, distribution sales to affiliates would have been up 1.3%. Growth would also have been stronger if the average price of forest products had not dropped further over the course of 2007.

Our distribution sales showed good growth in the first three quarters. The slowdown occurred toward the end of the year, especially in the construction materials sector, which suffered from an early and severe onset of winter, never favourable to construction activities. The climate led to the early closure of worksites, which meant that the end of the year saw lower than normal resupply needs for affiliate stores active in the building materials sector. This slowdown also reflects healthy prudence on the part of our affiliate dealer-owners in the face of uncertain economic conditions, resulting in a lower level of inventory in store. The excellent reaction time of our distribution network allows them to manage their own inventory very conservatively. When necessary, they can quickly adjust if traffic in their store surpasses their expectations.

Distribution activities produced operating income of \$68.2 million in 2007, compared to \$67.3 million in 2006. On a comparable basis (weekly average), the operating income rose 3.3%. The operating margin increased to 6.32% in 2007 compared to 6.03% in 2006. This 29-basis-point increase reflects ongoing efficiency improvements in the Company's distribution operations, partly stemming from the expansion of the network, the improvement in purchasing conditions, the addition of higher performance infrastructure and efficiency improvements implemented during the year.

CASH FLOWS AND FINANCIAL POSITION

Operations generated cash flows of \$286.2 million in 2007, compared to \$283.3 million for the year before. Net of changes in working capital associated with the growth and development of the retail and distribution networks, operations generated cash flows of \$276.8 million, against \$283.4 million in 2006.

Acquisitions resulted in a net cash outflow of \$228.5 million, or 35.3% more than in 2006. Acquisitions in 2007 strengthened our network in Ontario and Western Canada, mainly in the specialized store segment.

In 2007, we disbursed \$233.7 million in capital investments, in keeping with the capital budget unveiled a year ago. These investments were dedicated mainly to the expansion of our retail network through constructing new stores and retrofitting, renovating and upgrading existing stores to reflect our new concepts. As we do each year, we made substantial investments in the ongoing improvements to our information systems with a view to boosting operating efficiency.

The investments and acquisitions made in 2007 were mainly financed through cash flows generated through operations. Moreover, we also increased our long-term debt by a net amount of \$121.4 million, mostly from our existing credit facilities.

Our working capital (excluding instalments on long-term debt) stood at \$697.5 million at year-end, compared to \$663.2 million a year earlier. This increase is a consequence of network growth, both organic and acquired. Inventory stood at \$856.3 million at year-end, up 8.3% over the previous year due to expansion through acquisitions and the opening of many new stores at the end of the year.

Our balance sheet remains strong. On December 30, 2007, the total debt/capital ratio stood at 33.1%, compared to 30.9% at the close of 2006. The Company plans to improve this ratio by focusing on a disciplined use of its capital and additional efficiency improvement measures, thus increasing our financial flexibility in the coming quarters.

The equity/assets ratio reached 53.4% at the end of 2007, compared to 53.8% on the same date in 2006.

Our operations generate strong cash flows. With a relatively low debt load and fixed rates on most of our long-term debt, that is, our \$400 million debenture, we have good liquidity and access to over \$300 million in additional credit at competitive rates. Last July, we extended the maturity of our renewable credit facility by one year, from October 6, 2011 to October 6, 2012. RONA has sufficient resources to pursue disciplined growth along its four growth vectors: same-store sales growth, new store construction, dealer recruitment, and acquisitions.

In 2008, our capital spending program will amount to about \$240 million. Of this sum, about \$180 million will be spent on the construction, refit or renovation of stores and on the acquisition of land. Another \$20 million will be spent to expand the distribution network in order to support the rapid expansion of our network in the west. Finally, some \$40 million will be spent on ongoing improvements to our information systems.

The table below presents a summary of the Company's contractual obligations as of December 30, 2007, including off-balance sheet operating leases used in the normal course of business. As well, we concluded off-balance sheet arrangements such as inventory repurchase agreements and mortgage guarantees (arrangements that do not appear in the table). For a more detailed description of these arrangements, please see notes 17 and 20 to the consolidated financial statements.

**RONA contractual obligations by term
(as at December 30, 2007)**

Contractual obligations	Payments by term (In thousands of dollars)				
	Total	Less than 1 year	1-2 years	3-4 years	5 years and more
Long-term debt	592,991	4,563	9,398	171,612	407,418
Obligations under capital leases	16,374	6,774	7,489	1,937	174
Operating and other leases	1,290,252	114,917	222,274	203,921	749,140
Other long-term obligations	78,132	36,625	34,908	6,449	150
Total	1,977,749	162,879	274,069	383,919	1,156,882

RONA: outstanding shares, as at February 15, 2008

Common shares	115,415,441
Unexercised options	2,922,552
Total	118,337,993

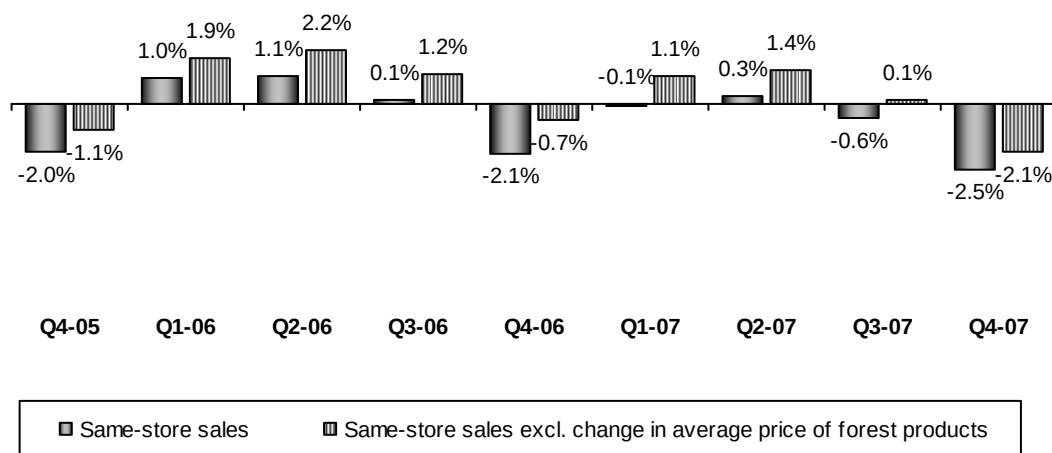
QUARTERLY PERFORMANCE

RONA: consolidated quarterly financial results (in millions of dollars, except earnings per share)

	2007				2006*			
	Q4	Q3	Q2	Q1	Q4*	Q3	Q2	Q1
Sales	1,087.0	1,350.5	1,469.1	878.5	1,141.3	1,265.8	1,346.0	798.8
Operating income	75.9	121.6	161.8	40.9	86.7	109.6	145.0	42.6
Net earnings	30.5	59.4	86.2	9.0	38.1	56.1	80.0	16.4
Earnings per share (\$)	0.26	0.52	0.75	0.08	0.33	0.49	0.70	0.14
Earnings per share, diluted (\$)	0.26	0.51	0.74	0.08	0.33	0.48	0.69	0.14

* Q4 2006 has 14 weeks compared to 13 weeks for the other quarters. 2006 has 53 weeks, compared to 52 weeks for 2007. See "Fiscal Year" above.

Annual change in same-store sales Nine last quarters



Note: The figures for Q4-06 and Q4-07 are corrected for the impact of the 14th week in Q4-06.

Fiscal year 2006 quarterly performance

Despite a tougher business climate, same-store sales inched ahead in the first quarter of 2006, the least significant period for earnings. Acquisition and recruitment impact also fuelled growth. Operating margins continued to improve while earnings grew 15.3% year-over-year.

In the second quarter of 2006, we posted very strong performance, with net earnings climbing 13.7% to \$80.0 million, compared to the previous year. Concerted marketing, merchandising and store service efforts pushed same-store sales ahead slightly despite a drop in prices for forest products. During this quarter, we also began integrating Chester Dawe, Matériaux Coupal and Curtis Lumber.

Net earnings increased 5.8% in the third quarter of 2006. We reacted to the tougher business climate by investing more in sales efforts and store service quality using resources freed up by our continuously improving operating efficiency. Despite freefalling lumber prices, same-store sales inched ahead, unlike our competitors of reference in this matter, who reported significant declines.

For the fourth quarter of 2006, RONA posted an increase in net earnings of 1.3%. Our consolidated sales for the quarter advanced 13.2% (5.1% on a comparable basis – weekly average) year-over-year. This growth stemmed from sales in our corporate and franchise stores. Organic growth of our consolidated sales (consolidated sales minus major acquisitions) was 6.1%. The operating income for the quarter increased by 17.4% compared to the corresponding quarter the year before.

This increase can be partly attributed to the fact that the fourth quarter of 2006 had an extra week, but there was also real sales growth and a better operating margin. The operating margin for the fourth quarter was 7.6%, compared to 7.3% the year before.

Quarterly performance in 2007

More pronounced seasonality and unfavourable economic and weather conditions affected RONA's profitability in the first quarter of 2007. Net earnings stood at \$9.0 million, or \$0.08 per share, compared to \$16.4 million, or \$0.14 per share in 2006. We have little room to manoeuvre to adapt to changes in our business environment in the first quarter of the year, because historically, less than 20% of sales and less than 10% of earnings are generated during that period. Half of the decline in our net earnings can be attributed to temporary and foreseen effects, the most important being the impact of our acquisitions in the construction materials sector, where results are weakest at the beginning of the year and where they were not completely integrated into the RONA network. The other half was related to conditions that were more difficult to anticipate, such as unfavourable weather conditions and a weaker-than-anticipated economy in Ontario and Quebec.

In the second quarter, net earnings increased by \$6.2 million or 7.7%, rising from \$80.0 million in second quarter 2006 to \$86.2 million in 2007. These record results were achieved thanks to the introduction of additional measures to stimulate sales of our private brand products, increase customer loyalty and improve efficiency. Growth also resulted from the integration of recent acquisitions.

Net earnings in the third quarter reached \$59.4 million, an increase of 5.9% over 2006. This increase, which was achieved despite downward pressure on sales in the retail industry, stemmed from improved efficiency in the store and distribution network, as well as contributions from recent acquisitions, including resulting synergies.

FOURTH QUARTER 2007

In the fourth quarter of 2007, RONA posted net earnings of \$30.5 million, compared to \$38.1 million for fourth quarter 2006. After dilution, the earnings per share in the quarter were \$0.26, compared to \$0.33 a year before. It should not be forgotten that fourth quarter 2006 had 14 weeks instead of 13. This extra week substantially inflated sales growth, operating income and net earnings in 2006 over 2005; on the other hand, a strict

comparison of sales, operating income and net earnings in 2007 and 2006 undervalues RONA's true sales performance.

Economic conditions

Economic growth slowed in Canada during the last quarter of 2007. Growth was lower than the Bank of Canada expected and was accompanied by an abrupt drop in the consumer confidence index, especially in Central and Eastern Canada.

The onset of winter was early and severe. While this had a positive effect on the sale of some seasonal items, it had a significant negative impact on construction activities and, by extension, the sale of building materials.

The drop in the price of forest products slowed in the fourth quarter in comparison to the three previous quarters.

Sales down 4.8%

Consolidated sales for the quarter stood at \$1,087.0 million, 4.8% less than a year before. On a comparable basis (weekly average), consolidated sales increased 2.6%. This growth stemmed from corporate and franchise sales. On a weekly basis, organic growth of consolidated sales (consolidated sales less major acquisitions) was -1.9%.

Operating income down 12.5%

In fourth quarter 2007, our operating income stood at \$75.9 million, down 12.5% from the corresponding quarter in the previous year. Excluding the impact of the extra week, the operating income would have been down by 5.7%.

The operating income represents 7.0% of quarterly sales, compared to 7.6% for the year before. This decline can be attributed to a non-recurring expense of \$2.1 million incurred and recorded at the end of 2007 for an in-depth study of the Company's supply chain, and to the effect of the additional week in 2006 which absorbed a larger portion of the fixed costs during the fourth quarter 2006. The operating margin was also under pressure, especially at the end of the year, when same-store sales decreased, since some operating costs are difficult to compress in the short term. In addition, we made extensive efforts to stimulate sales and traffic in stores across the RONA network.

Interest and depreciation

Our quarterly interest expense rose to \$7.5 million from \$5.3 million a year earlier due to the financing required for capital investments including the year's acquisitions.

Depreciation for the quarter ended December 30, 2007 stood at \$23.4 million, compared to \$22.3 million for the same quarter in 2006. The relative weakness of the increase can be explained by the fact that several newly built or acquired assets were not operational until the very end of the quarter.

Income taxes

Quarterly taxes were \$13.9 million, for an effective tax rate of 30.9%. Last year, fourth quarter income taxes were \$19.2 million, for an effective rate of 32.5%. The decline is the result of lower taxes announced in several provinces, which had an impact on the Company's future taxes.

Net earnings

Net earnings for the quarter were \$30.5 million, or \$0.26 per share after dilution, compared to \$38.1 million in 2006, or \$0.33 per share after dilution. This decline is mainly due to the extra week in 2006, as well as a non-recurring after-tax expense of \$1.4 million for an exhaustive study of RONA's supply chain. This study has already allowed us to undertake an extensive optimization exercise for the supply chain, which will significantly improve our operational efficiency beginning in 2008. Finally, a full range of activities were undertaken during the quarter to stimulate sales in what turned out to be a very difficult business climate.

In addition, as mentioned in the analysis of our annual results, certain investments dedicated to the expansion of the RONA network contribute only gradually to our earnings but generate full depreciation and interest expenses immediately. Because of this, several new stores that opened during the quarter created short-term downward pressure on the Company's net earnings.

SEGMENT ANALYSIS

RONA: KEY SEGMENT FIGURES, QUARTER ENDED DECEMBER 30, 2007

(in thousands of dollars)					% change of weekly average figures over 2006
	2007	2006	\$ change over 2006	% change over 2006	
Segment sales					
Corporate and franchise stores	870,568	878,095	(7,527)	(0.9)%	6.8 %
Distribution	489,711	548,726	(59,015)	(10.8)%	(3.9)%
Total	1,360,279	1,426,821	(66,542)	(4.7)%	2.7 %
Intersegment sales and royalties					
Corporate and franchise stores	(3,826)	(2,892)	(934)	32.3 %	42.5 %
Distribution	(269,418)	(282,591)	13,173	(4.7)%	2.7 %
Total	(273,244)	(285,483)	12,239	(4.3)%	3.1 %
Sales					
Corporate and franchise stores	866,742	875,203	(8,461)	(1.0)%	6.7 %
Distribution	220,293	266,135	(45,842)	(17.2)%	(10.9)%
Total	1,087,035	1,141,338	(54,303)	(4.8)%	2.6 %
Operating income					
Corporate and franchise stores	63,746	72,541	(8,795)	(12.1)%	(5.4)%
Distribution	12,194	14,206	(2,012)	(14.2)%	(7.6)%
Total	75,940	86,747	(10,807)	(12.5)%	(5.7)%
Operating margin					
Corporate and franchise stores	7.35%	8.29%	—	—94 bp	—
Distribution	5.54%	5.34%	—	+20 bp	—
Total	6.99%	7.60%	—	—61 bp	—

Note: Q4 2006 has 14 weeks versus 13 weeks in 2007. See "Fiscal Year" above.

Corporate and franchise stores: sales down 1.0% and operating income down 12.1%

On a weekly average basis, the segment's sales increased 6.7%. The acquisition of Noble Trade at the beginning of second quarter 2007 was the main growth factor. The acquisition of affiliate dealer-owners also contributed to sales growth. Organic growth benefited from the contributions of corporate and franchise stores opened in the last 12 months in Calgary North (Alberta), London, Whitby South, Waterdown, Collingwood, Leamington and Scarborough (Ontario), Pierrefonds (Quebec) and Edmunston (New Brunswick). Excluding the impact of the extra week in 2006 and the 0.4% decline in the average price of forest products, same-store sales decreased by 2.1% this quarter.

RONA: change in same-store sales, fourth quarter 2007 vs fourth quarter 2006

	% change
Same-store sales	-10.3%
Impact of 53 rd week in 2006	-7.8%
Impact of drop in average price of forest products	-0.4%
Same-store sales, with average price of forest products held constant and after elimination of the extra week in 2006	-2.1%

Retail operating income stood at \$63.7 million, compared to \$72.5 million in fourth quarter 2006. This drop of \$8.8 million stems largely from the fact that fourth quarter 2007 had one week less than the comparison quarter in 2006. The decline is also related to the negative leverage of a decrease in same-store sales, since some operating costs are difficult to compress in the short term. In light of the difficult market conditions at the end of the year, additional activities were introduced to stimulate sales. Consequently the segment's operating margin shrank by 94 basis points to 7.35% for the quarter.

Distribution: sales down 17.2% and operating income down 14.2%

On a comparable basis (weekly average), distribution sales decreased by 3.9% in fourth quarter 2007. Quarterly sales stood at \$489.7 million. This decline reflects the weakening of same-store sales, which resulted in a slowdown in deliveries to existing corporate and franchise stores. The decline can also be attributed to further reductions in the sale price of certain forest products, which led our network of independent dealer-owners to maintain low inventory levels. In addition, the end of the quarter was marked by softer construction materials sales caused by an early and harsh onset of winter in most parts of Canada. The severity of the climate led to a sudden drop in housing starts in December, after robust performance in October and November.

Net of intersegment activities, quarterly distribution sales were \$220.3 million, down 17.2 % compared to 2006. On a weekly average basis, distribution sales dropped 10.9%. Between the two comparison quarters, we acquired all or the majority of the shares of a selected number of affiliates, in order to enhance RONA's presence in certain parts of the country. Taking this into account, weekly distribution sales to affiliates would have been down 13.8% in the fourth quarter. Growth would also have been stronger if the average price of forest products had not dropped over the course of the quarter. These prices declined further in 2007.

This slowdown in distribution sales also reflects healthy prudence on the part of our affiliate dealer-owners in the face of uncertain economic conditions. The excellent

reaction time of our distribution network allows them to manage their own inventory very conservatively. When necessary, they can quickly adjust if traffic in their store surpasses their expectations.

Distribution activities produced operating income of \$12.2 million in fourth quarter 2007, against \$14.2 million in the corresponding quarter a year earlier. Most of the decline can be explained by the extra week in the comparison quarter of 2006. In fact, the operating margin improved by 20 basis points between the two periods, rising to 5.54% for fourth quarter 2007. This increase reflects ongoing efficiency improvements in the Company's distribution operations, partly attributed to the expansion of the network, the improvement in purchasing conditions, the addition of higher performance infrastructure leading to cost reductions related to the use of small satellite distribution centres, and efficiency improvements implemented in 2007.

OUTLOOK

RONA management believes that the slowdown in our sector over the past quarters is the result of economic conditions. RONA's long-term development has the benefit of favourable structural factors, notably that Canada's working population, age 25 to 55, is showing a growing interest in home renovation and gardening, and the baby boomers, who account for about 30% of the population, are approaching early retirement and retirement in better physical and financial shape than any previous generation.

In Canada, the existing housing stock is also aging: over 80% of homes are more than 15 years old and will require major maintenance work in the near future. Moreover, new housing starts, housing resales and the average selling price of homes have all seen big increases in the last three years. The Canadian market is, therefore, seeing many new owners with greater borrowing power, representing a highly favourable environment for the home improvement business.

The American economy has been experiencing a major correction in the real estate market over the past few quarters. Housing starts and resales have dropped significantly, and the average price of homes has stopped increasing. The situation is very different in Canada, where all of RONA's sales are based. The drop in housing starts is much less pronounced than in the United States, and resales are still climbing despite CMHC predictions of a drop. The number of housing starts remains at historically high levels, and resales have reached new records, boosting housing prices in many regions.

Nevertheless, the reduction in starts of single-family homes, combined with a slowdown in the growth of housing resales and the negative impact of the stronger Canadian dollar, is influencing the behaviour of Canadian consumers in relation to renovation projects. While consumer confidence is high compared to historic levels, it continued to sag in January 2008 after the significant decline at the end of 2007. Canadian consumers seem worried about the short-term economic prospects. In addition, the rise of the Canadian dollar also seems to have encouraged some consumers to spend their disposable income abroad. RONA management believes that these two factors could partly explain current downward pressure on same-store sales in our industry. It is worth noting, however, that high volumes of housing resales and residential construction have historically led to significant renovation expenditures in the following years. This anxiety

about spending on certain consumer goods may quickly dissipate when the economic uncertainty settles down.

Despite everything in the short term, the issues mentioned above are cutting into the growth of our market. In this context, and leaving aside the 2008-2011 development plan that we will unveil shortly after the publication of this report, we have already undertaken vigorous measures to reinvigorate our sales and profitability. These numerous incremental measures can be implemented quickly and they will affect all areas of our operations:

- Various measures and campaigns will be implemented to energize sales in the existing network, in both affiliate dealer-owners and our own network of corporate and franchise stores. Our first priority is to improve service in our stores. We have a number of strong promotion and loyalty levers – from the RONA credit card and gift cards to Air Miles™ and our Olympic Games promotions – that could be used more often and differently.
- We also plan to improve and speed up the launch of our new stores and the integration process for new affiliate dealer-owners and acquisitions, in order to accelerate their contribution to the expansion of our network. Finally we will proceed with the sale of certain non-strategic assets.
- We are setting up recruitment efforts to accelerate expansion of our network.
- Various initiatives will improve our consolidated gross margin: for example, reducing inventory loss related to theft and breakage (“shrinkage”) across the supply chain, optimizing supply synergies, etc.
- We are implementing a series of measures to increase our operational efficiency at every level: optimization of merchandise flows, inventory reduction, refinement of distribution and transport operations processes, etc.
- We are reviewing some long-established corporate stores that chronically underperform. Depending on their strategic potential, these stores will be restructured.
- We will continue to innovate by developing new concepts and sales approach.

Within our 2008-2011 planning horizon, RONA plans to be recognized as the industry leader in terms of service quality, operational efficiency and innovation, and sustainable development. RONA management intends to energetically pursue consolidation of the Canadian renovation market and to continue to increase our market share while maximizing earnings and return on investment.

RISKS AND UNCERTAINTIES

Operational control and improvement are constant concerns at RONA. From this perspective, risk identification and management is critical. RONA has identified and evaluated the major business risks that could have negative consequences on the achievement of RONA’s objectives and, by extension, on the Company’s performance.

RONA manages these risks constantly and has introduced several activities with the goal of mitigating the main risks outlined in the following section in order to attenuate their financial impact.

Market and competition

The 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 construction sector have a direct impact on RONA. The Company's sales are related to the number of housing starts, housing resales, consumer interest in renovation and housing costs. In addition, the demand for renovation, hardware and gardening products relies on consumer tastes and trends, so RONA has to stay in tune with the needs and demands of our customers.

RONA's business sector is very seasonal in nature. Weather has an impact on sales, and sales in the first quarter are always lower than in the other three because there is little renovation activity during the winter.

These various factors can have a significant impact on the Company's financial situation.

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 affects the Company's sales.

Furthermore various factors such as the exchange rate, the unemployment rate, interest rates and general credit conditions can all have a negative influence on RONA's financial results.

Human resources

To achieve our goals, we have to attract, train and retain a high number of competent employees while maintaining control of our payroll. Our 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 keep competent employees can have an impact on the Company's growth capacity and financial performance.

Information technology

With acquisitions as the focus of our growth and business model, our information technology structure is very complex.

We have made significant investments in technology and we will continue to do so in our stores, distribution centres and administrative centres.

These investments allow us to integrate our systems, simplify the structure of our technology platform, meet operational needs and take advantage of technological advances.

An inability to integrate our systems within a reasonable time could prevent us from achieving our expected financial goals.

Reputation

RONA sells a variety of products of many different brands, including our own private brand. Damage to the reputation of these brands could harm us by affecting consumer perception of the Company. A number of other factors could also affect RONA's reputation and have a serious impact on our performance, such as non-compliance with laws or regulations, especially with regard to the environment, legal proceedings against the Company or the disclosure of personal or confidential information.

Supply chain

RONA must plan for and satisfy our stores' needs for merchandise. In this regard we depend on national and international suppliers to provide timely delivery of merchandise at a good price all the while meeting our quality standards. It is important for RONA to establish solid and lasting relationships with our suppliers to avoid stock-outs or unexpected changes in merchandise prices.

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

Acquisition / integration / development

Acquisitions are one of the four vectors of RONA's development strategy. While we want to make acquisitions, nothing guarantees the availability of businesses that meet our rigorous selection criteria.

RONA's goal is to successfully integrate all acquired businesses to achieve the expected benefits.

RONA's desire to expand may also be hampered by an inability to find locations appropriate for development.

Legal and regulatory requirements

RONA is making every effort to respect all laws and regulations, but legal proceedings or third-party lawsuits could negatively affect the Company's situation and financial results.

Accounting standards

GAAP are complex, involve numerous assumptions and estimates, and may entail opinions from RONA management. These rules are also often subject to change. Amendments to these principles, assumptions and estimates can have enormous repercussions for RONA's financial results.

Availability of financing

RONA may not have access to the financing we need for certain growth vectors, which would prevent us from concluding business acquisitions or delay capital investments.

The availability of financing affects the Company in a number of different ways. A lack of financing may influence RONA's ability to pursue our growth objectives or prevent us from acquiring other stores or delay investment in existing stores. The Company may not be able to achieve our growth objectives, which would negatively affect our financial results.

CHANGES IN ACCOUNTING POLICIES

On January 1, 2007, in accordance with applicable transitional provisions, the Company retroactively adopted, without restatement of prior period financial statements, the following new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook:

Financial instruments

Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3861, *Financial Instruments – Disclosure and Presentation*, describe standards for the classification, recognition, measurement, disclosure and presentation of financial instruments (including derivatives) and non-financial derivatives in the financial statements.

The adoption of these new standards resulted in the following changes in the classification and measurement of the Company's financial instruments, previously recorded at cost:

- Cash is classified as a "financial asset held for trading" and is measured at fair value. All changes in fair value are recognized in earnings. This change had no impact on the Company's consolidated financial statements.
- Accounts receivable, long-term loans and advances and redeemable preferred shares (included in investments) are classified as "loans and receivables" and are recognized at cost, which at initial measurement corresponds to fair value. Subsequent revaluations of accounts receivable are recorded at amortized cost, which generally corresponds to initial measurement less any allowances for doubtful accounts. Subsequent revaluations of long-term loans and advances and redeemable preferred shares are recognized at amortized cost using the effective interest method less any amortization. This change had no impact on the Company's consolidated financial statements.
- Bank loans and accounts payable and accrued liabilities are classified as "other financial liabilities." They are initially measured at fair value and subsequent revaluations are recognized at amortized cost using the effective interest method. This change had no impact on the Company's consolidated financial statements.
- Long-term debt is classified as "other financial liabilities." With the exception of the revolving credit, it is measured at amortized cost, which corresponds to the initially recognized amount plus accumulated amortization of financing costs. The initially recognized amount corresponds to the principal amount of the debt less applicable financing costs. This change resulted in a decrease of \$4.8 million in deferred financing costs previously included in other assets, a decrease of \$4.9 million in long-term debt and an increase of \$46,000 (\$31,000 net of future income taxes) in opening retained earnings.
- The Company uses derivative financial instruments to manage foreign exchange risk. The Company does not use derivative financial instruments for speculative or trading purposes. The derivatives are classified as "liabilities held for trading" and are measured at fair value.

The Company also adopted the following accounting policies:

- Transaction costs related to other financial liabilities are recorded as a reduction in the carrying amount of the related financial liability.

- The Company records as a separate asset or liability only those derivatives embedded in hybrid financial instruments issued, acquired or substantially modified by the Company as of December 29, 2002 when these hybrid instruments are not recorded as held for trading and remained outstanding at January 1, 2007. Embedded derivatives that are not closely related to the host contracts must be separated from the host contract, classified as a financial instrument held for trading and measured at fair value with changes in fair value recognized in earnings. The Company has not identified any embedded derivatives to be separated other than derivatives embedded in purchase contracts concluded in a foreign country and settled in a foreign currency that is not the conventional currency of either of the two principal parties to the contract. Although the payments are made in a foreign currency that is routinely used in the economic environment where the transaction occurred, the Company has decided to separate the embedded derivatives. This change resulted in an increase in current liabilities of \$2.4 million and a decrease in retained earnings of \$2.4 million (\$1.6 million net of future income taxes) at January 1, 2007. For the thirteen-week and fifty-two-week periods ended December 30, 2007, this change resulted in an increase (decrease) of the following items:

(In millions of dollars, except earnings per share)

	Fourth Quarter	2007
Earnings before interest, taxes, depreciation, amortization and non-controlling interest	\$ (1.4)	\$ 4.2
Net earnings	\$ (1.0)	\$ 2.9
Earnings per share	\$ (0.01)	\$ 0.03
Earnings per share, diluted	\$ (0.01)	\$ 0.03

Comprehensive income

Section 1530, *Comprehensive Income*, describes standards for the presentation of comprehensive income and its components. Comprehensive income is the change in shareholders' equity, which results from transactions and events from sources other than the Company's shareholders. The adoption of the new section had no impact on the Company's consolidated financial statements.

Equity

Section 3251, *Equity*, describes standards for the presentation of equity and changes in equity in the period. The adoption of the new recommendation had no impact on the Company's consolidated financial statements.

Accounting changes

In accordance with applicable transitional provisions, the Company adopted the new recommendations of CICA Handbook, Section 1506, *Accounting Changes*. This section establishes the criteria for changing accounting policies together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. In addition, the new standard requires the communication of the new primary sources of GAAP that are issued but not yet adopted by the Company.

SIGNIFICANT ACCOUNTING ESTIMATES

Some amounts in the financial statements or in this analysis are estimates made by management based on knowledge of current or anticipated events. The only significant estimates concern inventory valuation, volume rebates and goodwill.

Inventory

Management annually reviews inventory movement in order to establish the obsolescence reserve required to cover potential losses associated with obsolete or low-turnover inventory.

Volume rebates

At the beginning of each year, management sets the volume rebate level based on plateaus established according to past volumes. Volume rebates are estimated with this data throughout the year and can be revised as new levels are reached. At the end of the year, the volume rebates are calculated according to actual annual plateaus.

Goodwill and trademarks

Goodwill is the excess of the cost of acquired enterprises over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it is impaired. The impairment test consists of a comparison of the fair value of the Company's reporting units with their carrying amount. When the carrying amount of a reporting unit exceeds the fair value, the Company compares the fair value of goodwill related to the reporting unit to its carrying value and recognizes an impairment loss equal to the excess. The fair value of a reporting unit is calculated based on evaluations of discounted cash flows.

Trademarks are also subjected to an assessment for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the future undiscounted cash flows expected from the asset.

DISCLOSING FINANCIAL INFORMATION

During 2007, management continued to work on implementing the Canadian Securities Authorities Multilateral Instrument 52-109, "Certification of disclosure in issuer's annual and interim filings ("MI 52-109"). This work was performed in accordance with the recognized control framework of COSO (Committee of Sponsoring Organizations of the Treadway Commission) its objective is to update the control documentation, develop a strategy for evaluating the effectiveness of the controls, and begin a review of the control portfolio in light of financial risks.

In the coming years, RONA will continue its work towards readiness for compliance with the final requirement of MI 52-109: the evaluation by management of the effectiveness of internal control over financial reporting. Last November, however, the Canadian Securities Administrators (CSA) announced that the effective date for this requirement, initially planned for organizations with a year-end on June 30, 2008 or later, would be pushed back. The new date will be announced some time in 2008. RONA will gradually deploy its evaluation process for internal controls over the course of 2008 in order to be

ready to vouch for their effectiveness when the time comes and to continue to reinforce the importance of this process within the organization.

DISCLOSURE CONTROLS AND PROCEDURES

Disclosure controls and procedures are designed to provide reasonable assurance that annual filings, as defined in MI 52-109, present fairly RONA's situation.

The design and operating effectiveness of disclosure controls and procedures were evaluated. As at December 30, 2007, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer concluded that disclosure controls and procedures were properly designed and effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

During 2007, RONA evaluated the design of internal control over financial reporting in accordance with the guidelines of MI 52-109. This evaluation allowed the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer to conclude that internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

In addition, this work allowed determining that, during the year ended December 30, 2007, no change to internal control over financial reporting has occurred that has materially affected, or is reasonably likely to have materially affected, such control.

FORWARD-LOOKING INFORMATION

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 Company, 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 Company 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 effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Company's business. For example, they do not include the effect of dispositions, acquisitions, other business transactions, asset writedowns 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 Company's actual results to differ from current expectations, please also refer to the Company's public filings available at

www.sedar.com and at 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 Company’s current Annual Information Form.

The forward-looking statements in this MD&A reflect the Company’s expectations as of February 19, 2008, and are subject to change after this date. The Company 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 19, 2008. The reader will find additional information concerning RONA, including the Company’s Annual Information Form, on the Company’s website at www.rona.ca or on SEDAR at www.sedar.com.

Claude Guévin CA
Executive Vice-President and
Chief Financial Officer

Robert Dutton
President and Chief Executive Officer



Consolidated Financial Statements December 30, 2007 and December 31, 2006

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RONA inc.**Consolidated Earnings**

Years ended December 30, 2007 and December 31, 2006

(Unaudited, in thousands of dollars, except earnings per share)

	Fourth Quarter		Year-to-date	
	2007	2006	2007	2006
Sales	\$ 1,087,035	\$ 1,141,338	\$ 4,785,106	\$ 4,551,936
Earnings before the following items	75,940	86,747	400,207	383,882
Interest on long-term debt	6,599	4,707	28,270	18,728
Interest on bank loans	894	639	3,329	3,417
Depreciation and amortization (Notes 10, 11 and 12)	23,397	22,293	90,901	74,545
	30,890	27,639	122,500	96,690
Earnings before income taxes and non-controlling interest	45,050	59,108	277,707	287,192
Income taxes (Note 4)	13,925	19,202	88,130	92,202
Earnings before non-controlling interest	31,125	39,906	189,577	194,990
Non-controlling interest	636	1,793	4,488	4,406
Net earnings and comprehensive income	\$ 30,489	\$ 38,113	\$ 185,089	\$ 190,584
Net earnings per share (Note 23)				
Basic	\$ 0.26	\$ 0.33	\$ 1.61	\$ 1.66
Diluted	\$ 0.26	\$ 0.33	\$ 1.59	\$ 1.64

The accompanying notes are an integral part of the consolidated financial statements.

RONA inc.**Consolidated Retained Earnings****Consolidated Contributed Surplus**

Years ended December 30, 2007 and December 31, 2006

(Unaudited, in thousands of dollars)

	2007	2006
Consolidated Retained Earnings		
Balance, beginning of year, as previously reported	\$ 709,467	\$ 518,883
Financial instruments - recognition and measurement (Note 2)	(1,589)	-
Restated balance, beginning of year	707,878	518,883
Net earnings	185,089	190,584
Balance, end of year	\$ 892,967	\$ 709,467
Consolidated Contributed Surplus		
Balance, beginning of year	\$ 9,182	\$ 6,618
Compensation cost relating to stock option plans	2,082	2,490
Exercise of stock options	(219)	(177)
Gain on disposal of the Company's common shares by a joint venture, net of income taxes of \$59	-	251
Balance, end of year	\$ 11,045	\$ 9,182

The accompanying notes are an integral part of the consolidated financial statements.

RONA inc.**Consolidated Cash Flows**

Years ended December 30, 2007 and December 31, 2006

(Unaudited, in thousands of dollars)

	Fourth Quarter		Year-to-date	
	2007	2006	2007	2006
Operating activities				
Net earnings	\$ 30,489	\$ 38,113	\$ 185,089	\$ 190,584
Non-cash items				
Depreciation and amortization	23,397	22,293	90,901	74,545
Derivative financial instruments	819	-	(2,483)	-
Future income taxes	2,032	9,218	1,894	8,933
Net loss (gain) on disposal of assets	152	(179)	1,041	(1,594)
Compensation cost relating to				
Stock option plans	537	722	2,082	2,490
Non-controlling interest	636	1,793	4,488	4,406
Other items	731	1,382	3,158	3,957
	58,793	73,342	286,170	283,321
Changes in working capital items (Note 5)	69,294	(60,852)	(9,361)	116
Cash flows from operating activities	128,087	12,490	276,809	283,437
Investing activities				
Business acquisitions (Note 6)	(53,162)	(15,945)	(228,502)	(168,872)
Advances to joint ventures and other advances	(7,666)	(4,628)	(2,795)	(5,295)
Other investments	-	-	(588)	(1,310)
Fixed assets	(73,175)	(79,771)	(233,662)	(232,173)
Other assets	(3,489)	(1,698)	(9,414)	(10,889)
Disposal of assets	9,895	516	17,028	6,852
Cash flows from investing activities	(127,597)	(101,526)	(457,933)	(411,687)
Financing activities				
Bank loans and revolving credit	16,488	(251,723)	156,128	(199,808)
Other long-term debt	807	402,685	1,740	406,302
Financing costs	-	(6,826)	-	(6,826)
Repayment of other long-term debt				
and redemption of preferred shares	(17,601)	(9,672)	(36,472)	(21,488)
Issue of common shares	1,160	797	5,318	4,701
Issue of equity securities to non-controlling interest	-	-	750	735
Cash dividends paid by a subsidiary to non-controlling interest	(1,960)	-	(1,960)	-
Redemption of equity securities from non-controlling interest	-	-	-	(1,000)
Cash flows from financing activities	(1,106)	135,261	125,504	182,616
Net increase (decrease) in cash	(616)	46,225	(55,620)	54,366
Cash, beginning of year	3,482	12,261	58,486	4,120
Cash, end of year	\$ 2,866	\$ 58,486	\$ 2,866	\$ 58,486
Supplementary information				
Interest paid	\$ 2,933	\$ 1,095	\$ 28,555	\$ 15,791
Income taxes paid	\$ 23,782	\$ 23,136	\$ 100,952	\$ 80,116

The accompanying notes are an integral part of the consolidated financial statements.

RONA inc.**Consolidated Balance Sheets**

December 30, 2007 and December 31, 2006

(Unaudited, in thousands of dollars)

	2007	2006
Assets		
Current assets		
Cash	\$ 2,866	\$ 58,486
Accounts receivable (Note 7)	237,043	205,808
Income taxes receivable	5,684	-
Inventory	856,326	790,496
Prepaid expenses	27,913	23,454
Derivative financial instruments (Note 18)	1,168	-
Future income taxes (Note 4)	12,279	10,859
	1,143,279	1,089,103
Investments (Note 8)	11,901	17,642
Fixed assets (Note 10)	816,919	634,131
Goodwill	454,882	316,558
Trademarks (Note 11)	4,145	1,380
Other assets (Note 12)	28,685	30,314
Future income taxes (Note 4)	22,635	19,254
	\$ 2,482,446	\$ 2,108,382
Liabilities		
Current liabilities		
Bank loans (Note 13)	\$ 19,574	\$ 21,221
Accounts payable and accrued liabilities	421,446	394,103
Income taxes payable	-	7,242
Derivative financial instruments (Note 18)	1,067	-
Future income taxes (Note 4)	3,650	3,314
Instalments on long-term debt (Note 14)	34,239	29,511
	479,976	455,391
Long-term debt (Note 14)	602,537	455,310
Other long-term liabilities (Note 15)	24,526	20,386
Future income taxes (Note 4)	23,781	19,402
Non-controlling interest	26,420	23,527
	1,157,240	974,016
Shareholders' equity		
Capital stock (Note 16)	421,194	415,717
Retained earnings	892,967	709,467
Contributed surplus	11,045	9,182
	1,325,206	1,134,366
	\$ 2,482,446	\$ 2,108,382

The accompanying notes are an integral part of the consolidated financial statements.

RONA inc.

Notes to Consolidated Financial Statements

December 30, 2007 and December 31, 2006

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

1. Governing statutes and nature of operations

The Company, incorporated under Part 1A of the Companies Act (Quebec), is a distributor and a retailer of hardware, home improvement and gardening products in Canada.

2. Changes in accounting policies

On January 1, 2007, in accordance with applicable transitional provisions, the Company retroactively adopted without restatement of prior period financial statements the following new recommendations of the Canadian Institute of Chartered Accountants' (CICA) Handbook:

Financial instruments

Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3861, *Financial Instruments – Disclosure and Presentation* describe standards for the classification, recognition, measurement, disclosure and presentation of financial instruments (including derivatives) and non-financial derivatives in the financial statements.

The adoption of these new standards resulted in the following changes in the classification and measurement of the Company's financial instruments, previously recorded at cost:

- Cash is classified as a "financial asset held for trading" and is measured at fair value. All changes in fair value are recognized in earnings. This change had no impact on the Company's consolidated financial statements.
- Accounts receivable, long-term loans and advances and redeemable preferred shares (included in investments) are classified as "loans and receivables" and are recognized at cost which, at initial measurement, corresponds to fair value. Subsequent revaluations of accounts receivable are recorded at amortized cost which generally corresponds to initial measurement less any allowance for doubtful accounts. Subsequent revaluations of long-term loans and advances and redeemable preferred shares are recognized at amortized cost using the effective interest method less any amortization. This change had no impact on the Company's consolidated financial statements.
- Bank loans and accounts payable and accrued liabilities are classified as "other financial liabilities". They are initially measured at fair value and subsequent revaluations are recognized at amortized cost using the effective interest method. This change had no impact on the Company's consolidated financial statements.
- Long-term debt is classified as "other financial liabilities". With the exception of the revolving credit, long-term debt is measured at amortized cost, which corresponds to the initially recognized amount plus accumulated amortization of financing costs. The initially recognized amount corresponds to the principal amount of the debt less applicable financing costs. This change resulted in a decrease of \$4,824 in deferred financing costs (previously included in other assets), a decrease of \$4,870 in long-term debt and an increase of \$46 (\$31 net of future income taxes) in opening retained earnings.
- The Company uses derivative financial instruments to manage foreign exchange risk. The Company does not use derivative financial instruments for speculative or trading purposes. The derivatives are classified as "liabilities held for trading" and are measured at fair value.

RONA inc.

Notes to Consolidated Financial Statements

December 30, 2007 and December 31, 2006

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

2. Changes in accounting policies (continued)

The Company also adopted the following accounting policies:

- Transaction costs related to other financial liabilities are recorded as a reduction in the carrying amount of the related financial liability.
- The Company records as a separate asset or liability only those derivatives embedded in hybrid financial instruments issued, acquired or substantially modified by the Company as of December 29, 2002 when these hybrid instruments are not recorded as held for trading and remained outstanding at January 1, 2007. Embedded derivatives that are not closely related to the host contracts must be separated from the host contract, classified as a financial instrument held for trading and measured at fair value with changes in fair value recognized in earnings. The Company has not identified any embedded derivatives to be separated other than derivatives embedded in purchase contracts concluded in a foreign country and settled in a foreign currency that is not the conventional currency of either of the two principal parties to the contract. Although the payments are made in a foreign currency that is routinely used in the economic environment where the transaction occurred, the Company has decided to separate the embedded derivatives. This change resulted in an increase in current liabilities of \$2,382 and a decrease in retained earnings of \$2,382 (\$1,620 net of future income taxes) at January 1, 2007. For the thirteen-week and fifty-two-week periods ended December 30, 2007, this change resulted in an increase (decrease) of the following items:

	Fourth Quarter	Year-to- date
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest	\$ (1,425)	\$ 4,219
Net earnings	(969)	2,868
Net earnings per share	\$ (0.01)	\$ 0.03
Net earnings per share - diluted	\$ (0.01)	\$ 0.03

Comprehensive income

Section 1530, *Comprehensive Income* describes standards for the presentation of comprehensive income and its components. Comprehensive income is the change in shareholders' equity, which results from transactions and events from sources other than the Company's shareholders. The adoption of the new Section had no impact on the Company's consolidated financial statements.

RONA inc.

Notes to Consolidated Financial Statements

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

2. Changes in accounting policies (continued)

Equity

Section 3251, *Equity* describes standards for the presentation of equity and changes in equity in the period. The adoption of the new recommendation had no impact on the Company's consolidated financial statements.

Accounting changes

In accordance with applicable transitional provisions, the Company adopted the new recommendations of CICA Handbook, Section 1506, *Accounting Changes*. This section establishes the criteria for changing accounting policies together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors. In addition, the new standard requires the communication of the new primary sources of GAAP that are issued but not yet adopted by the Company (Note 24).

3. Accounting policies

Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates.

Principles of consolidation

These financial statements include the accounts of the Company and its subsidiaries. Moreover, the Company includes its share in the assets, liabilities and earnings of joint ventures in which the Company has an interest. This share is accounted for using the proportionate consolidation method.

RONA inc.

Notes to Consolidated Financial Statements

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

3. Accounting policies (continued)

Revenue recognition

The Company 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.

Inventory valuation

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

Vendor rebates

The Company records cash consideration received from vendors as a reduction in the price of vendors' products and reflects it as a reduction to cost of goods sold and related inventory when recognized in the consolidated statements of earnings and consolidated balance sheets.

Fixed assets

Fixed assets are recorded at cost including capitalized interest, if applicable. Depreciation commences when the assets are put into use and is recognized using the straight-line method and the following annual rates in order to depreciate the cost of these assets over their estimated useful lives.

	<u>Rates</u>
Parking lots	8% and 12.5%
Buildings	4% and 5%
Leasehold improvements	5% to 33%
Furniture and equipment	10% to 30%
Computer hardware and software	10% to 33%

Impairment of long-lived assets

Fixed assets are tested for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. The carrying amount of a long-lived asset is not recoverable when it exceeds the sum of the undiscounted cash flows expected from its use and eventual disposal. In such a case, an impairment loss must be recognized and is equivalent to the excess of the carrying amount of a long-lived asset over its fair value.

RONA inc.

Notes to Consolidated Financial Statements

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3. Accounting policies (continued)

Goodwill and trademarks

Goodwill is the excess of the cost of acquired enterprises over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it is impaired. The impairment test consists of a comparison of the fair value of the Company's reporting units with their carrying amount. When the carrying amount of a reporting unit exceeds the fair value, the Company compares the fair value of goodwill related to the reporting unit to its carrying value and recognizes an impairment loss equal to the excess. The fair value of a reporting unit is calculated based on evaluations of discounted cash flows.

Trademarks having finite lives are amortized on a straight-line basis over periods ranging from five to seven years and are also tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the future undiscounted cash flows expected from the asset. The loss is determined by comparing the fair value of the asset to its carrying value. The fair value is calculated based on evaluations of discounted cash flows.

Other assets

Pre-opening expenses are amortized on a straight-line basis over a period of three years beginning at the start of operations.

Financing costs relate to credit facilities and are amortized on a straight-line basis over the financing term over a period of six years.

Costs related to sale and leaseback agreements are amortized over the lease term according to the straight-line method.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future 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.

Other long-term liabilities

Other long-term liabilities consist of a deferred gain on a sale and leaseback transaction and deferred lease obligations. They are amortized using the straight-line method over the terms of the leases.

Deferred lease obligations result from the recognition, by the Company, of the rental expense on a straight-line basis over the lease term when leases contain a predetermined fixed escalation of the minimum rent.

RONA inc.

Notes to Consolidated Financial Statements

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

3. Accounting policies (continued)

Stock option plans

The Company accounts for options issued according to the fair value based method. Compensation cost should be measured at the grant date and should be recognized over the applicable stock option vesting period. Any consideration received from employees when options are exercised or stock is purchased is credited to share capital as well as the related compensation cost recorded as contributed surplus.

Foreign currency translation

Monetary items on the balance sheet are translated at the exchange rates in effect at year-end, while 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. Gains or losses resulting from the translation are included in earnings for the year.

Employee future benefits

The Company accrues its obligations under employee benefit plans and the related costs, net of plan assets.

The Company has adopted the following accounting policies for the defined benefit plans:

- The actuarial determination of the accrued benefit obligations for pension uses the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees;
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- Past service costs from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendments;
- Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees. The average remaining service period of the active employees covered by the pension plan is 16 years (17 years at December 31, 2006);
- The transitional obligation is amortized on a straight-line basis over a period of 10 years, which is the average remaining service period of employees expected to receive benefits under the benefit plan in 2000.

For defined contribution plans, the pension expense recorded in earnings is the amount of contributions the Company is required to pay for services rendered by employees.

RONA inc.

Notes to Consolidated Financial Statements

December 30, 2007 and December 31, 2006

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

3. Accounting policies (continued)

Earnings per share and information pertaining to number of shares

Earnings per share are calculated by dividing net earnings available for common shareholders by the weighted average number of common shares outstanding during the year. 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. The treasury stock method is used to determine the dilutive effect of the stock options. This method assumes that proceeds of the stock options during the year are used to redeem common shares at their average price during the period.

Fiscal year

The Company's fiscal year ends on the last Sunday of December. The fiscal years ended December 30, 2007 and December 31, 2006 include 52 and 53 weeks of operations, respectively.

4. Income taxes

	<u>2007</u>		<u>2006</u>
Current	\$ 86,236	\$	83,269
Future	<u>1,894</u>		<u>8,933</u>
	\$ 88,130	\$	92,202

Future income taxes arise mainly from the changes in temporary differences.

The Company's effective income tax rate differs from the statutory income tax rate in Canada. This difference arises from the following items:

	<u>2007</u>		<u>2006</u>
Federal statutory income tax rate	22.1 %		22.1 %
Statutory rate of various provinces	9.8		10.0
Combined statutory income tax rate	<u>31.9</u>		<u>32.1</u>
Non-deductible costs	0.4		0.4
Other	<u>(0.6)</u>		<u>(0.4)</u>
Effective income tax rate	31.7 %		32.1 %

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

December 30, 2007 and December 31, 2006

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

4. Income taxes (continued)

Future income tax assets and liabilities result from differences between the carrying amounts and tax bases of the following:

	2007	2006
Future income tax assets		
Current		
Non-capital loss carry-forwards	\$ 2,024	\$ 2,765
Direct costs related to business acquisitions	674	688
Provisions not deducted and other	9,581	7,406
	<u>\$ 12,279</u>	<u>\$ 10,859</u>
Long-term		
Non-capital loss carry-forwards	\$ 5,754	\$ 4,317
Share issue expenses	-	563
Fixed assets and pre-opening expenses	7,152	6,709
Deferred gain on sale and leaseback transaction	4,137	4,415
Goodwill	1,101	1,239
Deferred revenue and other	4,491	2,011
	<u>\$ 22,635</u>	<u>\$ 19,254</u>
Future income tax liabilities		
Current		
Incentive payments received	\$ 2,065	\$ 2,442
Other	1,585	872
	<u>\$ 3,650</u>	<u>\$ 3,314</u>
Long-term		
Fixed assets and pre-opening expenses	\$ 15,822	\$ 15,441
Goodwill	3,544	2,444
Pension plans	2,079	1,020
Other	2,336	497
	<u>\$ 23,781</u>	<u>\$ 19,402</u>

RONA inc.

Notes to Consolidated Financial Statements

December 30, 2007 and December 31, 2006

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

5. Cash flow information

The changes in working capital items are detailed as follows:

	<u>2007</u>	<u>2006</u>
Accounts receivable	\$ 11 801	\$ 41,032
Inventory	(18,451)	14,004
Prepaid expenses	(3,740)	(9,104)
Accounts payable and accrued liabilities	13,700	(48,969)
Income taxes (receivable) payable	(12,671)	3,153
	<u>\$ (9,361)</u>	<u>\$ 116</u>

6. Business acquisitions

During 2007, the Company acquired seven companies (fourteen in 2006), operating in the corporate and franchised stores segment, by way of share or asset purchases. Taking direct acquisition costs into account, these acquisitions were for a total consideration of \$253,704 (\$188,430 in 2006). The Company financed these acquisitions from its existing credit facilities. The results of operations of these companies are consolidated from their date of acquisition.

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

	<u>2007</u>	<u>2006</u>
Current assets	\$ 93,823	\$ 137,128
Fixed assets	40,403	39,734
Goodwill	138,817	64,221
Trademarks	2,981	1,514
Other assets	118	327
Future income taxes	1,240	(578)
Current liabilities	(18,636)	(43,691)
Long-term debt	(5,042)	(6,312)
Non-controlling interest	-	(3,913)
	<u>253,704</u>	<u>188,430</u>
Less : Accrued direct acquisition costs	(1,044)	(1,409)
Balance of purchase price	(24,158)	(18,149)
Cash consideration paid	<u>\$ 228,502</u>	<u>\$ 168,872</u>

The Company expects that an amount of \$104,519 of goodwill will be deductible for tax purposes.

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

December 30, 2007 and December 31, 2006

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

7. Accounts receivable

	2007	2006
Trade accounts		
Affiliated and franchised stores	\$ 49,451	\$ 49,955
Joint ventures	8,176	12,896
Other (retail customers)	153,502	121,434
Advances to joint ventures, varying from prime to prime plus 3%	8,377	5,582
Other accounts receivable	13,254	14,181
Portion of investments receivable within one year	4,283	1,760
	<u>\$ 237,043</u>	<u>\$ 205,808</u>

8. Investments

	2007	2006
Joint ventures, at cost		
Preferred shares, dividend rate of 6%	\$ 1,071	\$ 4,594
Mortgages, weighted average rate of 9.5% (9.1% in 2006) maturing on various dates until 2015	693	766
Companies subject to significant influence		
Shares, at equity value	2,387	2,631
Preferred shares, at cost, redeemable over ten years, maturing in 2011	320	400
Advances and loans, at cost		
Mortgages and term notes, weighted average rate of 5.7% (7.1% in 2006), maturing at various dates until 2016	11,071	10,374
Other	642	637
	<u>16,184</u>	<u>19,402</u>
Portion receivable within one year	4,283	1,760
	<u>\$ 11,901</u>	<u>\$ 17,642</u>

The consolidated statement of earnings includes dividend income of \$82 (\$287 in 2006) and interest income of \$2,885 (\$2,651 in 2006).

RONA inc.

Notes to Consolidated Financial Statements

December 30, 2007 and December 31, 2006

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

9. Information on joint ventures

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

The Company's share in the assets, liabilities, earnings and cash flows relating to its interests in joint ventures is as follows:

	<u>2007</u>	<u>2006</u>
Current assets	\$ 14,459	\$ 16,357
Long-term assets	19,177	9,531
Current liabilities	16,250	11,017
Long-term liabilities	5,719	6,432
Sales	57,599	70,284
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest	2,746	3,582
Net earnings	749	1,221
Cash flows from operating activities	6,919	119
Cash flows from investing activities	(9,411)	(2,218)
Cash flows from financing activities	2,841	894

The Company's sales include sales to joint ventures at fair value in the amount of \$91,456 (\$118,308 in 2006).

The Company's share in the commitments of these joint ventures amounts to \$327 (\$490 in 2006).

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

December 30, 2007 and December 31, 2006

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

10. Fixed assets

	2007		
	Cost	Accumulated depreciation	Net
Land and parking lots	\$ 166,386	11,871	154,515
Buildings	234,995	43,294	191,701
Leasehold improvements	174,231	67,198	107,033
Furniture and equipment	292,670	153,810	138,860
Computer hardware and software	166,544	105,665	60,879
Projects in process ^(a)	71,175	-	71,175
Land for future development	73,328	-	73,328
Assets under capital leases ^(b)			
Furniture and equipment	18,690	7,706	10,984
Computer hardware and software	21,372	12,928	8,444
	\$ 1,219,391	402,472	816,919

	2006		
	Cost	Accumulated depreciation	Net
Land and parking lots	\$ 119,630	\$ 7,877	\$ 111,753
Buildings	193,371	31,597	161,774
Leasehold improvements	131,309	55,481	75,828
Furniture and equipment	249,259	130,740	118,519
Computer hardware and software	128,230	83,545	44,685
Projects in process ^(a)	27,220	-	27,220
Land for future development	72,253	-	72,253
Assets under capital leases ^(b)			
Furniture and equipment	16,501	5,593	10,908
Computer hardware and software	21,118	9,927	11,191
	958,891	\$ 324,760	\$ 634,131

Depreciation of fixed assets amounts to \$81,506 (\$65,704 in 2006).

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

^(b) During the year, the Company acquired \$6,017 (\$15,001 in 2006) of assets under capital leases.

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

December 30, 2007 and December 31, 2006

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

11. Trademarks

	2007	2006
Cost	\$ 4,495	\$ 1,514
Accumulated amortization	350	134
Net	\$ 4,145	\$ 1,380

Amortization of trademarks amounts to \$216 (\$134 in 2006). Included in the total cost is an amount of \$2,321 with an indefinite life.

12. Other assets

	2007	2006
At unamortized cost		
Pre-opening expenses	\$ 15,753	\$ 14,488
Financing costs	3,122	8,554
Costs related to sale and leaseback agreements	2,653	2,878
Accrued benefit asset (Note 19)	7,149	4,349
Other	8	45
	\$ 28,685	\$ 30,314

Amortization of other assets amounts to \$9,179 (\$8,707 in 2006).

RONA inc.

Notes to Consolidated Financial Statements

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

13. Credit facilities

a) Parent company and some subsidiaries

On October 6, 2006, the Company completed the refinancing of its credit facilities by way of a new agreement with a syndicate of lenders. The agreement provides for an unsecured, renewable credit facility of \$500,000 and subject to certain conditions, an additional amount of up to \$150,000. The premium on the base rate and borrowing costs varies in accordance with the credit rating assigned to the unsecured debentures. The facility is available until 2012 and may be extended for an additional year.

Credit facilities can also be used to issue letters of guarantee and credit letters for imports. At December 30, 2007, the letters of guarantee issued amount to \$14,717. For 2007, the weighted average interest rate on the revolving credit is 5.5% (4.9% in 2006).

The Company is required to meet certain financial ratios. At December 30, 2007, the Company is in compliance with these requirements.

The Company has also set up 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. At December 30, 2007, the amount used is \$29,493.

b) Other subsidiaries

Bank loans are secured by an assignment of certain assets in the amount of \$120,480 (\$171,245 in 2006). These bank loans bear interest at rates varying from prime rate to prime rate plus 1% and are renewable annually. At December 30, 2007 and December 31, 2006 the interest rates varied from 6% to 7%. The amount authorized for these credit facilities is \$58,250 (\$65,500 in 2006) and the amount used is \$17,142 (\$18,805 in 2006).

c) Joint ventures

Bank loans are secured by an assignment of certain assets. The Company's share of these assets amounts to \$12,408 (\$16,657 in 2006). These bank loans bear interest at rates varying from prime rate to prime rate plus 1% and are renewable annually. At December 30, 2007 and December 31, 2006, the interest rates varied from 6% to 7%. The amount authorized for these credit facilities is \$18,700 (\$23,700 in 2006) and the amount used is \$2,432 (\$2,417 in 2006).

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

December 30, 2007 and December 31, 2006

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

14. Long-term debt

	2007	2006
Revolving credit, weighted average rate of 5.5% (4.9% in 2006) (Note 13)	\$ 160,200	\$ -
Debentures, unsecured, rate of 5.4%, due in 2016 (Note 2) ^(a)	395,821	400,000
Mortgage loans, secured by assets having a depreciated cost of \$43,069 (\$84,553 in 2006), rates varying from 5.1% to 10.0% (5.9% to 10.3% in 2006) maturing on various dates until 2017	32,512	41,570
Obligations under capital leases, rates varying from 2.9% to 12.4 % (2.9% to 11.6% in 2006), maturing on various dates until 2016	15,317	18,304
Balance of purchase price, varying from 0% to prime rate, payable on various dates until 2010	27,926	18,594
Shares issued and fully paid		
- Class C preferred shares, Series 1 (353 shares in 2006) ^(b)	-	353
5,000,000 Class D preferred shares (6,000,000 shares in 2006) ^(c)	5,000	6,000
	636,776	484,821
Instalments due within one year	34,239	29,511
	\$ 602,537	\$ 455,310

(a) Effective rate of 5.5%

(b) During the year, the Company redeemed 353 shares (677 shares in 2006) for a cash consideration of \$353 (\$677 in 2006). These shares were redeemable over a period of five years.

(c) During the year, the Company redeemed 1,000,000 shares (1,000,000 shares in 2006) for a cash consideration of \$1,000 (\$1,000 in 2006). These shares are redeemable over a period of ten years.

Dividends affecting earnings amount to \$240 (\$294 in 2006).

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

	Obligations under capital leases	Other long-term loans and shares
2008	\$ 6,774	\$ 27,883
2009	4,260	7,868
2010	3,229	9,137
2011	1,390	8,087
2012	547	165,525
2013 and subsequent years	174	407,417
Total minimum lease payments	16,374	
Financial expenses included in minimum lease payments	1,057	
	\$ 15,317	

RONA inc.

Notes to Consolidated Financial Statements

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15. Other long-term liabilities

	<u>2007</u>		<u>2006</u>
Deferred gain on sale and leaseback transaction	\$ 13,140	\$	14,290
Deferred lease obligations	11,386		6,096
	<u>\$ 24,526</u>	\$	<u>20,386</u>

16. Capital stock

Authorized

Unlimited number of shares

Common shares

Class A preferred shares, issuable in series

Series 5, non-cumulative dividend equal to 70% of prime rate, redeemable at their issuance price

Class B preferred shares, 6% non-cumulative dividend, redeemable 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 their par value of \$1,000 each
(Note 14)

Class D preferred shares, 4% cumulative dividend, redeemable at their issue price. Beginning in 2003, these shares are redeemable at their issue price over a maximum period of ten years on the basis of 10% per year (Note 14)

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

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16. Capital stock (continued)**Issued and fully paid:**

The following tables present changes in the number of outstanding common shares and their aggregate stated value:

	December 30, 2007	
	Number of shares	Amount
Balance, beginning of year	114,935,569	\$ 413,542
Issuance in exchange for common share subscription deposits	120,715	2,513
Issuance under stock option plans	339,327	1,876
Issuance in exchange for cash	17,155	315
Balance before elimination of reciprocal shareholdings	115,412,766	418,246
Elimination of reciprocal shareholdings	(70,319)	(401)
Balance, end of year	115,342,447	417,845
Deposits on common share subscriptions, net of eliminations of joint ventures ^(a)		3,349
		\$ 421,194

	December 31, 2006	
	Number of shares	Amount
Balance, beginning of year	114,412,744	\$ 408,943
Issuance in exchange for common share subscription deposits	101,696	2,192
Issuance under stock option plans	400,550	1,952
Issuance in exchange for cash	20,579	455
Balance before elimination of reciprocal shareholdings	114,935,569	413,542
Elimination of reciprocal shareholdings	(54,920)	(301)
Balance, end of year	114,880,649	413,241
Deposits on common share subscriptions, net of eliminations of joint ventures ^(a)		2,476
		\$ 415,717

^(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.

RONA inc.

Notes to Consolidated Financial Statements

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

16. Capital stock (continued)

Stock option plan of May 1, 2002

The Company adopted a stock option plan for designated senior executives which was approved by the shareholders on May 1, 2002. A total of 2,920,000 options were granted at that date. Options granted under the plan may be exercised since the Company made a public share offering on November 5, 2002. The Company can grant options for a maximum of 3,740,000 common shares. At December 30, 2007 the 2,920,000 options granted have an exercise price of \$3.47 and of this number, 1,449,500 options (1,149,723 options at December 31, 2006) were exercised.

The fair value of each option granted was estimated at the grant date using the Black-Scholes option-pricing model. Calculations were based upon a market price of \$3.47, an expected volatility of 30%, a risk-free interest rate of 4.92%, an expected life of four years and 0% expected dividend. The fair value of options granted was \$1.10 per option according to this method.

No compensation cost was expensed with respect to this plan for the years ended December 30, 2007 and December 31, 2006.

Stock option plan of October 24, 2002

On October 24, 2002, the Board of Directors approved another stock option plan for designated senior executives of the Company 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.

On March 8, 2007, the Board of Directors approved certain modifications to the plan. These modifications were also approved by the shareholders at the annual shareholders' meeting on May 8, 2007. These modifications establish that this plan is no longer applicable to the designated directors of the Company and also provide for the replacement of the terms and conditions for granting options under the plan by a more flexible mechanism for setting the terms and conditions for granting options. The Board of Directors will adopt the most appropriate terms and conditions relative to each type of grant. For the options granted on March 8, 2007 the Board approved the option grant with vesting over a four-year period following the anniversary date of the grant at 25 % per year.

At December 30, 2007, the 1,700,852 options (1,504,852 options at December 31, 2006) granted have exercise prices ranging from \$14.29 to \$26.87 and of this number, 85,100 options (45,550 options at December 31, 2006) have been exercised and 163,700 options (67,100 options at December 31, 2006) have been forfeited.

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

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

16. Capital stock (continued)

The fair value of stock options granted was estimated at the grant date using the Black-Scholes option-pricing model on the basis of the following weighted average assumptions for the stock options granted during the period:

	2007	2006
Weighted average fair value per option granted	\$8.50	\$7.71
Risk-free interest rate	3.90%	4.06%
Expected volatility in stock price	26%	28%
Expected annual dividend	0%	0%
Expected life (years)	6	6

Compensation cost expensed with respect to this plan was \$2,082 for the year ended December 30, 2007 (\$2,490 at December 31, 2006).

A summary of the situation of the Company's stock option plans and the changes that occurred during the periods then ended is presented below:

	December 30, 2007
	Options
	Weighted average exercise price
Balance, beginning of year	3,162,479
Granted	196,000
Exercised	(339,327)
Forfeited	(96,600)
Balance, end of year	2,922,552
Options exercisable, end of year	2,007,194
	\$10.16
	23.58
	4.88
	20.94
	11.31
	\$6.69

	December 31, 2006
	Options
	Weighted average exercise price
Balance, beginning of year	3,131,327
Granted	463,652
Exercised	(400,550)
Forfeited	(31,950)
Balance, end of year	3,162,479
Options exercisable, end of year	2,230,927
	\$7.84
	21.45
	4.43
	18.34
	10.16
	\$6.00

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

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16. Capital stock (continued)

The following table summarizes information relating to stock options outstanding at December 30, 2007:

<u>Exercise price</u>	<u>Expiration date</u>	<u>Options outstanding</u>	<u>Options exercisable</u>
\$ 3.47	December 31, 2012	1,470,500	1,470,500
\$14.29	December 16, 2013	432,550	428,550
\$20.27	December 22, 2014	417,250	103,750
\$21.21	February 24, 2016	380,000	-
\$21.78	September 1, 2016	17,576	4,394
\$23.58	March 8, 2017	176,100	-
\$23.73	April 5, 2015	11,000	-
\$26.87	February 24, 2016	17,576	-
		<u>2,922,552</u>	<u>2,007,194</u>

17. Guarantees

In the normal course of business, the Company reaches agreements that could meet the definition of “guarantees” in AcG-14.

The Company guarantees mortgages for an amount of \$2,360. 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 \$6,012.

Pursuant to the terms of inventory repurchase agreements, the Company is committed towards financial institutions to buy back the inventory of certain customers at an average of 62% of the cost of the inventories to a maximum of \$57,246. In the event of recourse, this inventory would be sold in the normal course of the Company’s operations. These agreements have undetermined periods but may be cancelled by the Company 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.

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

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

18. Financial instruments

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

	December 30, 2007		December 31, 2006	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets held for trading				
Cash	\$ 2,866	\$ 2,866	\$ 58,486	\$ 58,486
Derivative financial instruments	1,168	1,168	-	-
Loans and receivables				
Accounts receivable	237,043	237,043	205,808	205,808
Redeemable preferred shares	1,071	1,071	4,594	4,594
Financial liabilities				
Bank loans	19,574	19,574	21,221	21,221
Accounts payable and accrued liabilities	421,446	421,446	394,103	394,103
Revolving credit	160,200	160,200	-	-
Debentures	395,821	372,145	400,000	401,205
Mortgage loans and balance of purchase price	60,438	60,438	60,164	60,164
Preferred shares	5,000	5,000	6,353	6,353
Financial liabilities held for trading				
Derivative financial instruments	\$ 1,067	\$ 1,067	\$ -	\$ 2,382

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

- The fair value of accounts receivable, bank loans and accounts payable and accrued liabilities is comparable to their carrying amount, given the short maturity periods;
- The fair value of loans and advances, substantially all of which have been granted to dealer-owners, has not been determined because such transactions have been conducted to maintain or to develop favourable trade relationships and do not necessarily reflect terms and conditions which would have been negotiated with arm's length parties. Moreover, the Company holds sureties on certain investments which provide it with potential recourse regarding the operations of the dealer-owners in question;
- The fair value of the revolving credit, mortgage loans and balance of purchase price is equivalent to its carrying amount given that significant loans bear interest at rates that fluctuate with the market rate;

RONA inc.

Notes to Consolidated Financial Statements

December 30, 2007 and December 31, 2006

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18. Financial instruments (continued)

- The fair value of debentures was determined using market prices;
- The fair value of class C preferred shares, Series 1 and class D preferred shares, included in long-term debt, approximates their 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.

The revenues, expenses, gains and losses resulting from financial assets and liabilities recorded in net earnings are as follows:

	<u>2007</u>	<u>2006</u>
Interest on accounts receivable	\$ (2,978)	\$ (2,318)
Interest on long-term loans and advances	(2,885)	(2,651)
Dividends on redeemable preferred shares	(82)	(287)
Interest on cash and bank loans	3,329	3,417
Interest on long term debt	28,270	18,728
Gain on fair value of derivative financial instruments	(3,738)	-

Credit risk

Credit risk arises from customers' potential inability to meet their obligations as agreed upon. The Company holds the assets of certain customers as security and reviews their financial strength on a regular basis to manage this risk.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations on time and at a reasonable cost. The Company manages its liquidity risk on a consolidated basis by using numerous financing sources to maintain its manoeuvrability, taking into account its operating needs, tax situation and capital requirements. The Company prepares budget and cash forecasts to ensure that it has sufficient funds to meet its obligations.

Exchange risk

The Company's exchange risk exposure results from foreign currency purchases. The Company uses derivative financial instruments to manage exchange risk. The Company does not use derivative financial instruments for speculative or trading purposes. As at December 30, 2007, the par value of forward exchange contracts is US\$37,300. The average rate of these contracts is 1.0092 and they expire at various dates until May 2008.

Interest rate risk

The Company manages its exposure to interest rate fluctuations by allocating its financial debt between fixed rate and variable rate debt instruments.

RONA inc.

Notes to Consolidated Financial Statements

December 30, 2007 and December 31, 2006

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

19. Employee future benefits

At December 30, 2007, the Company has eight defined contribution pension plans and four defined benefit pension plans.

The total expense is \$8,818 (\$8,072 in 2006) for defined contribution pension plans.

Total cash payments for employee future benefits for 2007, consisting of cash contributed by the Company to its defined benefit and defined contribution pension plans, were \$12,528 (\$15,278 in 2006).

The Company measures its accrued 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 three years. One of the plans will be valued as at December 31, 2007 and the remaining plans will be valued as at December 31, 2009.

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

19. Employee future benefits (continued)

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

	2007	2006
Accrued benefit obligation		
Balance, beginning of year	\$ 43,785	\$ 36,928
Current service cost	752	647
Interest cost	2,230	2,177
Benefits paid	(2,915)	(2,231)
Actuarial (gain) loss	(2,105)	6,264
Settlement	(1,011)	-
Balance, end of year	40,736	43,785
Plan assets		
Fair value, beginning of year	39,264	30,385
Actual return	(544)	3,677
Employer contributions	3,710	7,206
Employee contributions	227	227
Benefits paid	(2,915)	(2,231)
Settlement	(1,040)	-
Fair value, end of year	38,702	39,264
Funded status - deficit	(2,034)	(4,521)
Unamortized past service cost	22	36
Unamortized net actuarial loss	9,034	8,395
Unamortized transitional obligation	87	129
Valuation allowance	(139)	-
Accrued benefit asset	\$ 6,970	\$ 4,039
Accrued benefit asset included in other assets	\$ 7,149	\$ 4,349
Accrued benefit liability included in accounts payable and accrued liabilities	\$ 179	\$ 310
Allocation of plan assets		
Equity securities	58 %	58 %
Debt securities	42	42
Total	100 %	100 %

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

December 30, 2007 and December 31, 2006

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

19. Employee future benefits (continued)

The net pension expense for defined benefit pension plans is as follows:

	2007	2006
Current service cost	\$ 525	\$ 420
Interest cost	2,230	2,177
Actual return on plan assets	544	(3,677)
Actuarial (gain) loss	(2,105)	6,264
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefits costs	1,194	5,184
Adjustments to recognize the long-term nature of employee future benefits costs:		
Difference between expected return and actual return on plan assets	(3,341)	1,520
Difference between actuarial loss recognized and actual actuarial (gain) loss on accrued benefit obligation	2,733	(5,415)
Gain on settlement	(2)	-
Amortization of past service costs	14	14
Amortization of transitional obligation	42	42
	640	1,345
Valuation allowance relating to the accrued benefit asset	139	(36)
Defined benefit pension costs recognized	\$ 779	\$ 1,309

The significant actuarial assumptions adopted in measuring the Company's accrued benefit obligations for the defined benefit plans are as follows:

	2007	2006
Accrued benefit obligation at December 31:		
Discount rate	5.5 %	5.0 to 5.25 %
Rate of compensation increase	3.0 to 5.5 %	3.0 to 5.5 %
Benefit costs for the years ended December 31:		
Discount rate	5.0 to 5.25 %	5.25 to 5.5 %
Expected rate of return on plan assets	7.0 %	7.0 %
Rate of compensation increase	3.0 to 5.5 %	3.0 to 5.5 %

RONA inc.

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

20. Commitments

The Company has entered into lease agreements expiring until 2018 which call for lease payments of \$70,783 for the rental of automotive equipment, computer equipment, distribution equipment, a warehouse and the building housing the head office and the distribution centre in Quebec.

The Company has also entered into lease agreements expiring until 2028 for corporate store space for minimum lease payments of \$1,116,695.

As part of the operation of big-box stores with dealer-owners, the Company is initially involved as a primary tenant and then signs a subleasing agreement with the dealer-owners. In this respect, the Company is committed under agreements expiring until 2023 which call for minimum lease payments of \$102,773 for the rental of premises and land on which the Company erected a building. In consideration thereof, the Company has signed subleasing agreements totalling \$101,998.

The minimum lease payments (minimum amounts receivable) under lease agreements for the next five years are \$114,917 (\$9,987) in 2008, \$112,932 (\$10,033) in 2009, \$109,342 (\$10,033) in 2010, \$104,860 (\$10,077) in 2011 and \$99,061 (\$10,037) in 2012.

In 2005, the Company entered into an eight-year partnership agreement for the Olympic and Paralympic Games valued at \$60,000. Moreover, in 2006 the Company committed an additional amount of \$7,000 to financial support programs for athletes. At December 30, 2007, the balance due on these agreements is \$45,206.

21. Contingencies

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

22. Segmented information

The Company has two reportable segments: distribution and corporate and franchised stores. The distribution segment relates to the supply activities to affiliated, franchised and corporate stores. The corporate and franchised stores segment relates to the retail operations of the corporate stores and the Company's share of the retail operations of the franchised stores in which the Company has an interest.

The accounting policies that apply to the reportable segments are the same as those described in accounting policies. The Company evaluates performance according to earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest, i.e. sales less chargeable expenses. The Company accounts for intersegment operations at fair value.

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

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22. Segmented information (continued)

	Fourth Quarter		Year-to-date	
	2007	2006	2007	2006
Segment sales				
Corporate and franchised stores	\$ 870,568	\$ 878,095	\$ 3,720,214	\$ 3,447,426
Distribution	489,711	548,726	2,296,054	2,256,894
Total	1,360,279	1,426,821	6,016,268	5,704,320
Intersegment sales and royalties				
Corporate and franchised stores	(3,826)	(2,892)	(13,695)	(11,790)
Distribution	(269,418)	(282,591)	(1,217,467)	(1,140,594)
Total	(273,244)	(285,483)	(1,231,162)	(1,152,384)
Sales				
Corporate and franchised stores	866,742	875,203	3,706,519	3,435,636
Distribution	220,293	266,135	1,078,587	1,116,300
Total	1,087,035	1,141,338	4,785,106	4,551,936
Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest				
Corporate and franchised stores	91,763	99,335	440,390	413,728
Distribution	17,495	19,781	89,965	90,382
Total	109,258	119,116	530,355	504,110
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest				
Corporate and franchised stores	63,746	72,541	332,017	316,618
Distribution	12,194	14,206	68,190	67,264
Total	75,940	86,747	400,207	383,882
Acquisition of fixed assets				
Corporate and franchised stores	87,682	71,207	242,297	215,781
Distribution	13,632	13,790	28,857	36,669
Total	101,314	84,997	271,154	252,450
Goodwill				
Corporate and franchised stores	16,512	(15)	138,324	64,221
Distribution	-	-	-	-
Total	\$ 16,512	\$ (15)	\$ 138,324	\$ 64,221
Total assets				
Corporate and franchised stores			2,129,570	1,710,202
Distribution			352,876	398,180
Total			\$ 2,482,446	\$ 2,108,382

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

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

23. Earnings per share

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

	Fourth Quarter		Year-to-date	
	2007	2006	2007	2006
Net earnings	\$ 30,489	\$ 38,113	\$ 185,089	\$ 190,584
Number of shares (in thousands)				
Weighted average number of shares used to compute basic net earnings per share	115,346.2	114,877.2	115,289.2	114,732.2
Effect of dilutive stock options ^(a)	1,296.4	1,637.1	1,447.4	1,744.8
Weighted average number of shares used to compute diluted net earnings per share	116,642.6	116,514.3	116,736.6	116,477.0
Net earnings per share	\$ 0.26	\$ 0.33	\$ 1.61	\$ 1.66
Net earnings per share - diluted	\$ 0.26	\$ 0.33	\$ 1.59	\$ 1.64

(a) At December 30, 2007, 602,252 common share stock options (921,152 options at December 31, 2006) were excluded from the calculation of diluted net earnings per share since the unrecognized future compensation cost of these options has an antidilutive effect.

RONA inc.

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24. Effect of new accounting standards not yet implemented

In December 2006, the CICA issued the following new recommendations which apply to fiscal years beginning on or after October 1, 2007. The Company is currently evaluating the impact of the adoption of these new sections on its consolidated financial statements.

Financial instruments – disclosures

Section 3862, *Financial Instruments - Disclosures* describes the required disclosures related to the significance of financial instruments on the entity's financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks. This Section complements the principles of recognition, measurement and presentation of financial instruments of Section 3855, *Financial Instruments – Recognition and Measurement*.

Financial instruments – presentation

Section 3863, *Financial Instruments – Presentation* establishes standards for presentation of financial instruments and non-financial derivatives. It complements the presentation standards of Section 3861, *Financial Instruments – Disclosure and Presentation*.

Capital disclosures

Section 1535, *Capital Disclosures* establishes standards for disclosing information about the entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital.

In June 2007, the CICA issued the following new recommendation which applies to fiscal years beginning on or after January 1, 2008.

Inventories

Section 3031, *Inventories*, replaces Section 3030 of the same title and prescribes the basis and method for measuring inventories. It allows for the reversal of any previous write-down of inventories as a result of an increase in value. Finally, the Section prescribes new requirements on the disclosure of the accounting policies adopted, carrying amounts, amounts recognized as an expense, the amount of any write-down and the amount of any reversal of a write-down. The difference in the measurement of opening inventory may be applied to the opening inventory for the period and opening retained earnings adjusted without restatement prior periods, or applied retrospectively with restatement of prior periods. The Company will apply the new standard as of the first quarter of its 2008 fiscal year and is currently determining the impact of its adoption on the consolidated financial statements.