



NEWS RELEASE
FOR IMMEDIATE RELEASE

RONA ANNOUNCES RESULTS FOR FISCAL 2008

STRONG PEP PROGRAM PERFORMANCE AND RIGOROUS BALANCE SHEET MANAGEMENT
INCREASE CASH FLOW FROM OPERATIONS BY 27% AND REDUCE NET DEBT BY 25%

FINANCIAL HIGHLIGHTS

- Consolidated sales up 2.2%.
- Sales in the distribution sector up 4.9% as a result of higher comparable sales by RONA affiliate dealer-owners and new dealer recruitments.
- Adjusted gross margin, excluding unusual items, increased 89 basis points, or 101 basis points if calculated excluding the impact of a significant shift in the distribution sector's relative weighting.
- Comparable inventories were reduced by \$118 million, or 13.8%, and capital asset investments by \$37.5 million, or 16.1%.
- Cash flow from operations of \$350.3 million, or \$3.03 per share, up 26.6% over 2007.
- Net debt was reduced by \$163.2 million, or 25.0%, compared to 2007.
- Net earnings totalled \$160.2 million, or \$1.37 diluted earnings per share, compared with \$185.1 million, or \$1.59 diluted earnings per share, in 2007. Excluding unusual items of \$11.0 million after-tax, or \$0.10 per share, posted in 2008, diluted net earnings per share were \$1.47, down 7.5% from 2007.
- Continued expansion of the network, with six new RONA store openings, major renovations of 10 stores, including 8 Réno-Dépôt stores in Quebec, recruitment of 31 new independent dealers and completion of over 160 upgrade and expansion projects in affiliated stores.

Boucherville (Quebec), February 19, 2009 – RONA (TSX: RON), the largest Canadian distributor and retailer of hardware, renovation and gardening products, announced a 2.2% increase in its consolidated sales, which stood at \$4,891.1 million in fiscal year 2008, compared to \$4,785.1 million in 2007. This increase is attributable to improved sales by RONA affiliate dealer-owners, recruitment of new dealers, new store openings and acquisitions in late 2007 and early 2008. These factors have more than compensated for the 4% decrease in same-store sales in our corporate and franchise store network, which faced more difficult market conditions than expected throughout the entire year in certain regions of the country, particularly in Alberta, British Columbia and Ontario.

Operating income (EBITDA), including unusual items, stood at \$377.1 million for fiscal 2008, compared to \$400.2 million posted in 2007. The EBITDA margin decreased from 8.36% in 2007 to 7.71% in 2008. In 2008, unusual items of \$16.0 million (\$11.0 million after tax) were recorded for the cost of store closures and cancellation of future commitments, net of gains on disposal of non-core assets. Of this amount, \$12.2 million affected EBITDA. Excluding these unusual items, operating income was \$389.3 million for fiscal 2008, down \$10.9 million or 2.7% from 2007. This change is explainable primarily as a result of downward pressure on sales in the construction/renovation industry attributable to the drop in consumer confidence. This pressure had a more substantial impact on first and fourth quarter results than on the second and third quarters, since the beginning and end of the year are the periods when store traffic is at its lowest and variable costs are harder to contain. New stores that had not yet reached their full potential also contributed to the decrease in operating income. However, the numerous efficiency improvements

introduced under the PEP program (Phase 1 of our 2008-2011 strategic plan) have helped offset these negative factors.

EBITDA margin excluding unusual items decreased from 8.36% in 2007 to 7.96% in 2008. This decline is largely explained by the strong growth in distribution sector activities stemming both from our recruitment of new independent dealers and strong performance by our existing network of affiliates. These distribution activities generate lower margins than retail activities, which explains the downward pressure on the EBITDA margin. Although these development activities negatively affected the EBITDA margin, they generated a positive impact on the Company's return on capital. It should be added that pressure on sales in the construction/renovation industry due to the decline in consumer confidence also affected the EBITDA margin for the year. Greater efficiency as a result of the PEP program, however, helped mitigate this negative effect.

Net earnings, including unusual items, stood at \$160.2 million in 2008, or \$1.37 diluted earnings per share, compared to \$185.1 million in 2007, or \$1.59 diluted earnings per share. Excluding unusual items, net earnings were \$171.2 million for fiscal 2008, or \$1.47 diluted earnings per share, compared to \$185.1 million in 2007, or \$1.59 diluted earnings per share, a decrease of \$13.9 million or 7.5%. The factors that affect operating income also apply to this change in net earnings. Higher fixed costs involved in expanding the network were an additional factor, particularly the amortization costs associated with recent store openings and acquisitions.

"At the beginning of 2008, RONA adopted proactive measures to meet a more difficult economic environment than we had expected. In every quarter of this year, we improved our operating efficiency under the PEP program (productivity, efficiency, profitability). We also improved our balance sheet considerably, reducing our level of debt by more than \$160 million as a result of, among other things, an increase of nearly 27% in cash flow from operations, which reached a record \$350 million in 2008. The vitality of our affiliate dealer-owner network and our recent dealer recruitment successes also helped us post a 4.9% growth in sales from our distribution sector in 2008 and 15.3% in the fourth quarter. These various factors helped offset the negative impact on our results caused by the drop in Canadian consumer confidence as well as the decline in construction/renovation activities in certain regions of the country", said RONA President and CEO Robert Dutton.

"The current environment remains highly favourable to ongoing consolidation of our market in Canada, especially through recruitment of independent dealer-owners who want to join a strong brand with a highly promising business development plan. This was the reason behind my decision to get directly involved in recruiting and supporting these dealers. In 2008, we recruited 31 independent dealers representing \$132 million in retail sales. Since the start of 2009, 4 more dealers, representing retail sales of \$19 million, have been added. We still have more prospects that we're looking at and will continue to develop this growth vector vigorously in the upcoming quarters", Dutton added.

"However, given the uncertainty around the potential impact of the global economic crisis on consumer activity, we will continue to be disciplined in our other developments. We are starting 2009 with an improved PEP program and an optimized organizational structure. We will be very careful throughout this fiscal year to adapt our operations and capital asset investments to the unusual economic conditions we anticipate in 2009. Already in this early part of the year, we plan to reduce our capital investments by nearly \$50 million, or 25% less than in 2008. We want to maintain a solid balance sheet so that we can take advantage of the opportunities for growth that will arise during or near the end of the recession", Dutton concluded.

While the PEP program helped to largely offset the negative effects of conditions that were more difficult than expected since the beginning of the year, the extent of the current global economic crisis brings a high degree of uncertainty in terms of future consumer activity, RONA's management believes that the expected decline in the economic environment over upcoming quarters will prevent the Company from achieving its low-single-digit-growth objective for average earnings per share in the first half of the 2008-2011 business plan.

Management is nevertheless optimistic about the fundamental factors that support the demand and popularity of renovation projects, especially as this demand should be stimulated by the renovation tax credits introduced by the provincial and federal governments at the start of fiscal 2009, and by RONA's own complementary incentive measure. The Company intends to actively pursue the various measures underway to stimulate sales and improve efficiency in the PEP program over the next few quarters.

Finally, management believes that periods of major economic uncertainty often lead to major shifts in consumer activity, and this represents an outstanding opportunity to develop more innovative store concepts for the recovery to come. The Company also plans to maintain a solid balance sheet in order to seize the growth opportunities that will arise during or near the end of the recession.

FINANCIAL HIGHLIGHTS OF 2008

Economic conditions

Overall conditions in 2008 were relatively favourable for renovations in Quebec and the Atlantic Provinces, where RONA generates nearly 50% of its sales. But significant increases in housing prices continued to affect construction/renovation activities in the western part of the country, especially in Alberta, which had accumulated a high inventory of unsold new homes, and in British Columbia, where housing prices had become very expensive. In Ontario, single-family home construction/renovation activities were affected by economic difficulties in the province, which has been deeply affected by the auto industry slowdown.

Furthermore, housing starts for urban single-family homes dropped 18.1% in Canada in 2008, according to CMHC estimates. The decline was particularly heavy in Alberta, where housing starts for single-family homes decreased by 44%, compared to 19.8% in British Columbia and 15.1% in Ontario. In Quebec, the decline in housing starts was far less pronounced, at 5.3%, while in the Atlantic Provinces single-family housing starts increased by 13.2%, reflecting robust economic growth in Nova Scotia and Newfoundland. The most recent statistics for housing resales and average house prices also show a decline, especially in Alberta, British Columbia and Ontario.

Starting in the third quarter, the economic situation changed drastically across the country. In the face of the current global financial and economic crisis, economic uncertainty has reached new heights, and consumer confidence has been severely eroded. According to a recent poll published by the Conference Board of Canada, Canadian consumer confidence reached its lowest ebb in 26 years last December, in spite of a slight rally due to the major decrease in gas prices in November.

In light of these circumstances and the projected decline in the consumer price index, the Bank of Canada reduced its prime rate several times over the last few months. After the recent decrease of 50 basis points in January, the prime rate stood at 1.50%. According to the Bank of Canada's latest *Monetary Policy Report* in January, Canadian GDP is expected to shrink by 1.2% in 2009. In 2008, the Canadian economy posted a 0.7% increase in GDP, while in 2007 GDP grew by 2.7%.

The current interest rate environment remains favourable to high levels of housing starts and resales. In addition, inflationary pressures have declined considerably in recent months. Access to credit is more limited, however, and as previously mentioned, consumer confidence is at an extremely low level.

We must keep in mind, however, that fundamental trends are very favourable for renovations in Canada. More than 65% of existing dwellings are over 25 years old. Baby boomers represent roughly 30% of the population and they are investing major sums in their home or cottage. And there is still plenty of interest in interior decorating and gardening activities. Another strong trend is developing for backyard and patio decoration, as consumers embrace "outdoor living." Last but not least, next-generation Canadians are looking for one-stop solutions for their renovation projects and outstanding service in a friendly store near their home. RONA is tracking all these different trends closely as we develop new store formats and concepts, select our products and develop innovative services.

The current business environment is also highly favourable to the consolidation of the construction/renovation market in Canada, especially through recruitment of independent dealer-owners. RONA's recruitment results demonstrate clearly that in difficult times, independents want to join ranks with an organization that enjoys a strong reputation and can provide not only increased purchasing power but also management and development tools to help them improve their performance and establish a solid growth plan.

Consolidated sales

Consolidated sales for the year ended December 28, 2008, stood at \$4,891.1 million, up \$106.0 million, or 2.2% higher than the \$4,785.1 million posted in 2007. This growth stems from six new stores opened during the year, recruitment of 31 new affiliate dealer-owners and integration of recent acquisitions. Excluding major acquisitions (Noble Trade, Dick's Lumber, Centre de Rénovation André Lessard and Best-MAR), however, consolidated sales were 1.3% lower. Sales generated by the new stores opened or recruited over the last 12 months could not compensate for the decline in our same-store sales, which decreased 4.0% in 2008, excluding 0.6% deflation in the average price of forest products.

The decline in sales excluding acquisitions can be attributed, as explained earlier, to the ongoing decline in the level of consumer confidence in Canada, as well as the drop in housing starts and resales of single-family homes, especially in Alberta, Ontario and British Columbia. Despite lower figures for in-store transactions, due to the factors mentioned above, RONA's loyalty-building and sales-boosting activities, combined with employee efforts to offer the best service and shopping experience in the industry, have helped increase our average shopping basket. Sales declined in most product categories, indicating a general decline in consumer activity since the beginning of the year. Sales of RONA private brand products and installation services, however, experienced strong growth since the beginning of the year.

Adjusted Gross margin

The adjusted gross margin, excluding unusual items, rose by 89 basis points in 2008, from 29.24% in 2007 to 30.13% in 2008. If calculated excluding the effect of the significant shift in weighting of the distribution segment, the margin actually increased by 101 basis points. Adjusted gross margin in the retail segment increased by 116 basis points. This growth stems from better management of our product categories, higher private brand sales, reduced store losses (shrinkage) and ongoing improvement of terms and conditions from our suppliers.

Unusual items

Over the course of 2008, as part of a broad program to improve efficiency and optimize the existing RONA store network, the Company made a decision to close four non-performing stores and transfer the business volume from these stores to other nearby RONA stores. During the second quarter, the Company sold certain non-core assets and realized a before-tax gain of \$1.4 million. During the third quarter, the Company recorded unusual costs related to the cancellation of future commitments. Also in the fourth quarter, the Company posted unusual costs of \$0.9 million related to the store closures announced in the second quarter. For the year ended December 28, 2008, net unusual costs of \$16.0 million were accounted for, of which \$12.2 million affected operating income and \$3.8 million affected amortization, depreciation and financing costs. After taxes, the total unusual costs for 2008 were \$11.0 million.

Consolidated operating income

Operating income, including unusual items, was \$377.1 million for the year ended December 28, 2008, down \$23.1 million, or 5.8%, from the \$400.2 million posted in 2007. The EBITDA margin dropped 65 basis points from 8.36% in 2007 to 7.71%, largely due to the unusual items explained above and downward pressure on same-store sales.

Excluding the unusual items posted in the second, third and fourth quarters of 2008, operating income was \$389.3 million for 2008, down \$10.9 million or 2.7% from 2007. The EBITDA margin dropped 40 basis points to 7.96% from the 8.36% recorded in 2007.

This decline in operating income is largely the result of current pressure on sales in the construction/renovation industry due to the low level of consumer confidence. This pressure had a more substantial impact on first and fourth quarter results than on the second and third quarters because the beginning and end of the year represent the period when store traffic is at its lowest and variable costs are harder to contain. New stores that had not yet reached their full potential also contributed to the decline in operating income. The numerous efficiency improvements introduced under the PEP program in the first phase of the 2008–2011 strategic plan have nevertheless helped offset the negative effects of these factors. Since the beginning of the year, the PEP program has, for example, allowed us to improve our adjusted gross margin, reduce inventory levels, optimize the network of existing stores, improve logistics, accelerate recruitment of independent dealers and improve the process for opening new stores.

The main reason for the decline in the EBITDA margin is the strong growth in distribution activities stemming from recruitment of independent dealer-owners and strong performance by our existing network of affiliates. We should mention here that distribution activities generate lower margins than retail activities, which explains the downward pressure on the EBITDA margin. Although these development activities negatively affected the EBITDA margin, they generated a positive impact on the Company's return on capital. It should be added that pressure on sales in the construction/renovation industry as a result of the decline in consumer confidence also affected the EBITDA margin this year, although the efficiency improvements under the PEP program helped mitigate these negative effects.

Net earnings

Net earnings for 2008, including unusual items, dropped by 13.4% to \$160.2 million, or \$1.37 diluted earnings per share, compared to \$185.1 million in 2007, or \$1.59 diluted earnings per share. The factors that affected operating income also apply to the change in net earnings. Net earnings were also influenced by the increase in fixed costs related to the growth of the network, especially the amortization related to recent store openings and acquisitions.

Excluding unusual items, net earnings totalled \$171.2 million in 2008, or \$1.47 diluted earnings per share, compared to \$185.1 million or \$1.59 diluted earnings per share in 2007. This amounts to a decrease of \$13.9 million or 7.5%, reflecting pressure on sales in the construction/renovation industry, which could not be entirely compensated for by the efficiency improvement measures implemented at the beginning of the year.

FINANCIAL HIGHLIGHTS, FOURTH QUARTER 2008

Consolidated sales

Consolidated sales in fourth quarter 2008 totalled \$1,124.6 million, \$37.6 million, or 3.5%, higher than the \$1,087.0 million figure in 2007. This growth stemmed from store openings, recruitment of new affiliate dealer-owners and acquisitions. Consolidated growth (minus major acquisitions – Dick's Lumber, Centre de Rénovation André Lessard and Best-MAR) was 1.5%. Sales generated by new stores opened in the past 12 months and the \$34.2 million increase, or 15.3%, in distribution sector sales as a result of a very strong performance by our affiliate dealer-owner network and rapid integration of recently recruited dealers, more than compensated for the decrease in our same-store sales. The higher distribution sector sales stem from a temporary increase in inventories of certain low-priced building materials at year end and higher sales of building materials by our affiliate store network, given an improved purchasing program introduced for our building material specialists.

Same-store sales in fourth quarter 2008 decreased by only 0.8%, excluding 0.6% deflation in the average price of forest products. Quebec, the Prairies and the Atlantic Provinces performed very well in this quarter, but could not entirely offset the current pressure on sales in Alberta, British Columbia and Ontario, which have been more severely affected by the economic slowdown.

Despite a decline in in-store transactions due to the factors mentioned above, RONA's loyalty-building and sales-boosting activities, combined with employee efforts to offer the best service and shopping experience in the industry, helped hold the average shopping basket to a level only slightly lower than in the fourth quarter of 2007. Sales decreased in most product categories, indicating a general decline in consumer activity during this quarter.

As mentioned in our analysis of the year-end results, however, sales of RONA's private label products and installation services sales experienced strong growth since the beginning of the year.

Adjusted Gross margin

In fourth quarter 2008, adjusted gross margin, excluding unusual items, decreased from 30.82% in 2007 to 30.59% in 2008, a difference of 23 basis points. This decrease in adjusted gross margin is attributable primarily to strong growth in distribution sector activities as a result of our recruitment of new independent dealers and a strong performance by our existing affiliate dealer-owners. It is also attributable to a greater relative weighting of forest products and building materials in the fourth-quarter 2008 sales mix, stemming from a temporary increase in inventories of certain low-priced building materials at year end and higher sales of building materials by our affiliate store network, given an improved purchasing program introduced for our dealer-owners specializing in building materials. We should mention here that distribution activities generate smaller margins than retail activities and that the margin on sales of forest products and building materials is generally lower than the margin on hardware products. This explains the downward pressure on our adjusted gross margin. Although these growth activities may have negatively affected the adjusted gross margin, they have generated a positive impact on the Company's return on capital. If calculated eliminating the impact of a major variation in the distribution sector's relative weighting, adjusted gross margin increased 32 basis points. Adjusted gross margin in the retail segment increased by 95 basis points. This growth is tied to better management of product categories, higher private brand sales, reduced shrinkage in our stores and ongoing efforts to obtain better terms and conditions from our suppliers

Unusual items

In our analysis of the year-end results, we mentioned that as part of a broad program to improve efficiency and optimize the existing RONA stores network, the Company made a decision to close four non-performing stores and transfer the business volume from these stores to other nearby RONA stores. During fourth quarter 2008, the Company booked unusual costs of \$0.9 million related to these store closures. After taxes, these unusual costs were \$0.6 million.

Consolidated operating income

Operating income, including the unusual items mentioned above, was \$70.9 million in fourth quarter 2008, compared to \$75.9 million in 2007. The EBITDA margin decreased from 6.99% in 2007 to 6.31% in 2008. Excluding unusual items, however, operating income was \$71.8 million in fourth quarter 2008, down \$4.2 million, or 5.5%, from 2007, while the EBITDA margin decreased by 61 basis points from 6.99% in 2007 to 6.38% in 2008.

Besides the change in mix mentioned in our adjusted gross margin analysis, this decline can be explained by the current pressure on sales in the construction/renovation industry due to the decline in consumer confidence. This pressure had a much more substantial impact on first and fourth quarter results than on the second and third quarters, since the beginning and end of the year are the period when store traffic is at its lowest and variable costs are harder to contain. The decline is also attributable to recently opened stores that have not yet reached their full potential. As mentioned in our analysis of year-end results, the numerous efficiency improvements posted under the PEP program (Phase 1 of our 2008–2011 strategic plan) have helped mitigate the negative impact of these three factors. Since the start of the fiscal year, the PEP program has, among other things, allowed us to improve our adjusted gross margin, reduce inventory levels, optimize our network of existing stores, improve logistics, accelerate recruitment of independent dealers and improve the process for opening new stores

Net earnings

Net earnings, including unusual items in fourth quarter 2008, were \$25.7 million or \$0.22 diluted earnings per share, compared to \$30.5 million in 2007, or \$0.26 diluted earnings per share. Excluding the unusual items mentioned above, net earnings were \$26.3 million in fourth quarter 2008, or \$0.23 diluted earnings per share, compared to \$30.5 million in 2007, or \$0.26 diluted earnings per share. This represents a decrease of \$4.2 million or 13.8%. The factors that affected operating income also apply to this change in net earnings. Higher fixed costs involved in expanding the RONA network were an additional factor, particularly the amortization costs associated with recent store openings and acquisitions,

CASH FLOWS AND FINANCIAL POSITION

Operations generated cash flows of \$275.0 million in 2008, compared to \$286.2 million in 2007. Net of changes in working capital, operations generated \$350.3 million, compared to \$276.8 in 2007, an increase of \$73.5 million or 26.6%. Comparable inventories were reduced by \$118 million in 2008. As the table below shows, comparable inventory levels declined significantly in every quarter in 2008.

Reductions in comparable inventories

(In millions of dollars)	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008
Inventory at end of the corresponding period in 2007	\$944	\$959	\$872	\$856
Reduction in comparable inventories	\$83	\$118	\$80	\$118
Reduction (percent)	8.8%	12.3%	\$9.2%	13.8%

In second quarter 2008, RONA decided to reduce its planned capital spending program from \$240 million to \$200 million, in view of market conditions that were more difficult than expected. RONA ended the year with investments in capital assets totalling \$196.1 million, a difference of \$37.6 million, or 16.1% less than the \$233.7 million invested in 2007.

These investments were dedicated to the expansion of our retail network, including new store construction, as well as repairs, renovations and upgrades in existing stores to reflect new concepts – particularly stores under the Réno-Dépôt banner. We also committed part of these investments to ongoing improvements to our information systems in order to increase operational efficiency. The Company practised disciplined financial management throughout the year and strictly monitored its capital asset investments.

Thanks to the substantial funds generated by disciplined management of our working capital and capital spending since the beginning of the year, the Company's net debt on December 28, 2008, was \$490.3 million. This is a decrease of \$163.2 million, or 25.0%, compared to 2007.

RONA's balance sheet remains very strong. On December 28, 2008, the ratio of total debt to capital was 25.2%, compared to 33.1% at the end of 2007. The equity/asset ratio was 59.6% at the end of 2008, compared to 53.4 % a year earlier.

RONA's access to revolving credit increased by \$150 million on July 11, 2008, for a current total of \$650 million. At the end of fiscal 2008, \$42 million had been drawn on the total. Renewal of this credit facility is projected for 2012, and the unsecured debentures that constitute the major portion of the Company's long-term debt mature in 2016. RONA's operations also produce significant cash flows. With relatively low debt and long-term fixed rates on most of its long-term debt, RONA has significant liquidity and can borrow many millions more at advantageous rates. Our financial resources are therefore sufficient to face the current recession and pursue the disciplined development of our four growth vectors: growing sales in our existing store network, construction of new corporate and franchise stores, recruitment of new affiliate stores and acquisitions.

OUTLOOK

As the "Economic conditions" section explained in some detail, the economic situation changed significantly towards the end of the third quarter 2008. In the current ongoing global financial and economic crisis, economic uncertainty has reached new heights, with the result that consumer confidence has been hit hard, according to the most recent surveys.

With the Bank of Canada's numerous rate decreases in 2008 and early 2009, the current interest rate environment remains favourable to high housing starts and resale levels. Access to credit, however, is becoming increasingly limited, and consumer confidence is lower than at any time in the past 26 years.

While the PEP program largely offset the negative effects related to worse-than-anticipated conditions caused by the scope of the global economic crisis since the beginning of the year, RONA management believes that the expected decline in the economic environment over the next few quarters will prevent the Company from achieving its low-single-digit growth objective for average earnings per share in the first half of the 2008–2011 business plan.

Management is nevertheless optimistic about the fundamental factors that support the demand for and popularity of renovation projects, especially as this demand should be stimulated by the renovation tax credits announced by the federal and provincial governments in early 2009, and by RONA's own complementary incentive measure.

The Company intends to actively pursue the various efficiency improvement measures underway in the PEP program to stimulate sales and improve efficiency over the next quarters. Some of these are promising initiatives we introduced in 2008. Others are new initiatives, which will be also based on the four major projects unveiled in 2008. Key measures to be put in place under the PEP program in 2009 are as follows:

Improve the profitability of our corporate stores network:

- Continue to increase the retail segment's adjusted gross margin.
- Continue to reduce loss rates in stores (shrinkage).
- Continue to optimize our network by introducing improvement plans for under-performing stores.
- Continue to improve the Company's various information systems for greater ease and efficiency in our next wave of growth through acquisitions.
- Continue to sell off non-core assets.

Optimize our supply chain:

- Continue to reduce comparable inventories and generate better turnover rates in our stores and distribution centres.
- Further improve inventory quality by working more closely with our suppliers.
- Continue to optimize our distribution channels and review transportation contracts.
- Grow our Commercial and Professional Market division's distribution capacity.

Accelerate recruitment of independent dealer-owners:

- Accelerate the recruitment of independent dealer-owners and further improve loyalty among our current affiliates.
- Promote expansion projects among current affiliate dealer-owners.

Improve sales and customer loyalty in the RONA network:

- Introduce a revitalization program for existing big-box stores and create an innovative concept for future stores openings.
- Develop new concepts of specialized stores.
- Increase our private brand penetration from 17% to 18%.
- Increase our Commercial and Professional Market division's sales force in order to increase sales to these customers throughout the RONA network.
- Diversify the Commercial and Professional Market division's activities into other renovation product categories such as heating, ventilation and air-conditioning (HVAC) products.
- Continue to develop new RONA by Design renovation projects, including Building-by-Design and Decorating-by-Design projects.

- Continue to improve installation sales and promote use of the Project Guide for customers' major renovation projects and take full advantage of the renovation tax credits announced by the federal government and Quebec's government, as well as RONA's own complementary incentive measures.
- Continue to increase the number of its customers who use the AIR MILES[®] program as well as the RONA Desjardins credit card.
- Continue to market eco-responsible products and develop a range of eco-energy products using the life cycle analysis approach.
- Market new product categories and launch a repair service for private brand products and garden equipment.

To give the organization renewed vitality and establish a solid basis for the continued pursuit of the 2008–2011 strategic plan, RONA has made some changes to its organizational structure over the last few months. The operations of big-box stores and proximity stores have been combined under a single department. RONA's marketing activities have been consolidated and expanded, and they now focus more directly on innovation and the customer experience. A new vice-presidency was created for supply chain management, and the recruitment and support of independent dealer-owners has come under the direct supervision of the president and CEO. Finally, new talent management and executive succession planning tools will be introduced in 2009.

RONA started off 2009 with an improved PEP program and an optimized organizational structure. The Company will nevertheless remain vigilant throughout the year to adapt its operational activities and capital investments to the economic conditions projected for 2009. Even this early in the year, RONA is already planning to reduce capital spending from the \$196.1 million spent in 2008 to \$150 million in 2009. Of the seven stores currently under construction, three will open in 2009: a Réno-Dépôt expansion in LaSalle, Quebec, a new proximity store in Strathmore, Alberta, under the TOTEM banner, and the reconstruction and relocation of a RONA store after a fire in St-Georges-de-Beauce, Quebec. Four more stores will open in early 2010: three in Ontario and one in Alberta.

Management believes, however, that the current market conditions present significant potential for further consolidation of the Canadian construction/renovation market, especially in terms of recruitment of independent dealer-owners. Management also believes that periods of great economic uncertainty often lead to major changes in consumer behaviour, and this represents an excellent opportunity to develop innovative new store concepts in preparation for our sector's recovery. The Company therefore plans to maintain a solid balance sheet in order to be able to seize growth opportunities that will arise during or toward the end of the recession.

COMPANY BUSINESS

Last January, at the seventh annual Awards for Excellence in Corporate Governance presented by Korn/Ferry and *Commerce Magazine*, RONA was named the winner in the large business category. This recognition is testimony to the major efforts RONA management and members of our Board of Directors have made for many years to maintain exemplary standards in our corporate governance and business practices.

ADDITIONAL INFORMATION

The *Management Discussion and Analysis (MD&A)* and unaudited financial statements for the 2008 fiscal year can be found in the "Investor Relations" section of the Company's website at www.rona.ca, and at www.sedar.com. The Company's Annual Report can also be found on the RONA website, along with other information about RONA, including its *Annual Information Form*, which can also be found on the SEDAR website.

TELEPHONE CONFERENCE WITH THE FINANCIAL COMMUNITY

On Thursday, February 19, 2009, at 11:00 a.m. (EST), RONA will hold a telephone conference for the financial community. To join the conference, please call 514-861-4190 or 1 877 677-7769. To listen to the call online, please go to: <http://events.startcast.com/events6/153/C0003/Default.aspx>.

NON-GAAP PERFORMANCE MEASURES

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. We also use the concept of “adjusted gross margin,” which corresponds to sales less the cost of goods sold including all vendor rebates.

While EBITDA and adjusted gross margin do not have definitions standardized by generally accepted accounting principles in Canada (GAAP), they are 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 they are not standardized, EBITDA and adjusted gross margin cannot be compared from one company to the next. Still, we establish them in the same way for the segments identified, and, unless expressly mentioned, our method does not change over time.

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

In 2008, RONA accounted for unusual items related to the cost of store closures and gains on disposal of assets, as well as unusual costs related to the cancellation of future commitments. This document contains variance analyses of adjusted gross margin, EBITDA, EBITDA margin, net earnings and earnings per share excluding these unusual items. While these measures do not have a meaning standardized by GAAP, the management of the Company believes they represent good indicators of the operating performance of existing activities.

FORWARD-LOOKING STATEMENTS

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 www.rona.ca. In particular, further details and descriptions of these and other factors are disclosed in the 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 news release reflect the Company’s expectations as at February 19, 2009, 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

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of nearly 700 corporate, franchise and affiliate stores of various sizes and formats. With over 29,000 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 \$6.3 billion in annual retail sales.

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MANAGEMENT DISCUSSION AND ANALYSIS YEAR ENDED DECEMBER 28, 2008

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 of nearly 700 corporate, franchise and affiliate stores, as well as nine hardware and building materials distribution centres.

RONA's sales include:

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

FINANCIAL STATEMENTS

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 28, 2008 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 Discussion and Analysis ("MD&A") should be read in conjunction with the Company's financial statements and related notes.

NON-GAAP PERFORMANCE MEASURES

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. We also use the concept of "adjusted gross margin," which corresponds to sales less the cost of goods sold including all vendor rebates.

While EBITDA and adjusted gross margin do not have definitions standardized by GAAP, they are 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 they are not standardized, EBITDA and adjusted gross margin cannot be compared from one company to the next. Still, we establish them in the same way for the segments identified, and, unless expressly mentioned, our method does not change over time.

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

In 2008, RONA accounted for unusual items related to the cost of store closures and gains on disposal of assets, as well as unusual costs related to the cancellation of future commitments. This document contains variance analyses of adjusted gross margin, EBITDA, EBITDA margin, net earnings and earnings per share excluding these unusual items. While these measures do not have a meaning standardized by GAAP, the management of the Company believes they represent good indicators of the operating performance of existing activities.

FISCAL YEAR

RONA's fiscal year ends on the last Sunday of each year and usually has 52 weeks. For interim disclosure purposes, quarters end on the last Sunday of March, June, September and December, and have 13 weeks. Fiscal 2006 ended on December 31, fiscal 2007 ended on December 30, and fiscal 2008 ended on December 28. Fiscal 2006 therefore had 53 weeks, and the fourth quarter of 2006 had 14 weeks.

HIGHLIGHTS OF THE LAST THREE YEARS

Since the beginning of 2007, market conditions in the construction/renovation industry have varied from one region of the country to another. A gradual slowdown in activity was first noted in Quebec and Ontario when the Canadian dollar rose strongly against the American dollar, affecting the manufacturing industry in these two provinces. The stronger Canadian dollar also had a positive impact on foreign travel, generating a shift in consumer discretionary spending. These two factors affected sales in the RONA network in the eastern part of the country, while sales in the West continue to post solid growth. Same-store sales decreased by 0.8% in 2007, excluding the effects of the extra week in 2006 and 0.8% deflation in the average price of forest products. Consolidated sales in 2007 totalled \$4,785.1 million, 5.1% more than the \$4,551.9 million recorded in 2006. Brought down to a weekly basis to eliminate the difference in the length of these two years, consolidated sales rose 7.1%. This growth stemmed largely from acquisitions and store openings. Excluding contributions from major acquisitions – Noble Trade, Curtis Lumber, and Mountain Building Centres – weekly consolidated sales rose by 2.9%. This organic growth came from sales generated by new stores opened in 2007 and affiliate stores acquired by RONA.

At the end of 2007 and the beginning of 2008, the level of activity in the western part of the country began to decline due to major inflation in the region, especially in Alberta, where a large inventory of unsold houses had accumulated. In Quebec the situation stabilized, while in Ontario economic deterioration continued and accelerated in the third quarter as the financial crisis deepened. The automotive industry was severely affected in this region. In the Atlantic Provinces, Saskatchewan and Manitoba, 2008 was a good year, but these provinces represent a small percentage of economic activity in Canada. Given all these factors, RONA's same-store sales decreased by 4.0%, excluding 0.6% deflation in the average price of forest products. In general, the performance of stores in Alberta, British Columbia and Ontario was affected, while the stores in Quebec, the Prairies and Atlantic Canada performed better than the previous year.

Thanks to our unique business model, and despite the general slowdown in certain regions of the country, RONA continued to consolidate our market over the last two years, adding \$339.2 million in sales to our network, an increase of 7.5%. The Company's estimated market share also grew, from 16.4% at the end of 2006 to 17.5% at the end of 2008. This growth was achieved through the Company's four growth vectors: organic growth, recruitment of independent dealer-owners, new store openings and acquisitions.

RONA: Key figures for 2008, 2007 and 2006
(In millions of dollars, except number of shares and earnings per share)

	Year ended		
	December 28, 2008 (52 weeks)	December 30, 2007 (52 weeks)	December 31, 2006* (53 weeks)
Sales	4,891.1	4,785.1	4,551.9
Net earnings	160.2	185.1	190.6
Earnings per share	\$1.39	\$1.61	\$1.66
Diluted earnings per share	\$1.37	\$1.59	\$1.64
Net earnings (excluding unusual items)	171.2	185.1	190.6
Earnings per share (excluding unusual items)	\$1.48	\$1.61	\$1.66
Diluted earnings per share (excluding unusual items)	\$1.47	\$1.59	\$1.64
Total assets	2,506.2	2,482.5	2,108.4
Long-term debt	494.2	636.8	484.8
Number of shares outstanding at year end	115,819,699	115,412,766	114,935,569

* Please see "Fiscal year" on the previous page.

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

For the year ended December 28, 2008, RONA posted net earnings of \$160.2 million, compared to \$185.1 million for the year ended December 30, 2007, a decrease of 13.4%, including unusual items. Earnings per share were \$1.39 (\$1.37 after dilution), compared to \$1.61 (\$1.59 after dilution) in 2007. Excluding unusual items, net earnings were \$171.2 million, or \$1.48 per share (\$1.47 per share after dilution). This represents a decrease of 7.5% from 2007. The numerous efficiency improvement, sales stimulation and customer loyalty measures that RONA implemented in 2007 and more formally at the beginning of 2008 mitigated the downward pressure of the difficult economic situation on the Company's results.

The Company's net earnings in 2007 were down 2.9% from the \$190.6 million posted in 2006. Earnings per share likewise decreased by 3.0% compared to \$1.66 earned in 2006 (\$1.64 after dilution). There was also an extra week in 2006, which had the effect of underestimating the results for sales, operating income and net earnings in 2007 on a strict comparison with 2006. When we eliminate the effect of this extra week by calculating a weekly average, we see that net earnings for 2007 declined only slightly.

UPDATE ON THE COMPANY'S STRATEGIC ORIENTATION

RONA's 2008–2011 strategic plan was presented to the financial community during Investors Day on February 27, 2008 in Montreal. A news release outlining the issues and objectives of the plan was also published that day. RONA management made a commitment to provide quarterly updates of the plan's progress in its management report and an annual update in its annual report and at its annual general meeting.

Introduction of the 2008–2011 strategic plan

Fuelled by the improvement in its competitive positioning in the past few years, RONA intends to move forward and, by carrying out its 2008–2011 strategic plan, become THE solution for Canadian consumer complete housing needs. The plan also calls for RONA to offer the best service and the best shopping experience to its customer groups. RONA is also striving to be the most effective and innovative player in the industry, as well as the national leader in terms of sustainable development.

Phase 1: The PEP program

The first phase of the plan was launched in early 2008 when RONA management was anticipating an economic slowdown in certain regions of the country. As it had done during previous slowdowns, RONA quickly rolled out an extensive optimization platform called the PEP program (productivity, efficiency and profitability). This program includes the following four major projects:

1. Improve profitability in the corporate store network
2. Optimize the supply chain
3. Accelerate recruitment of independent dealer-owners
4. Improve sales and customer loyalty in the RONA network

When the 2008–2011 strategic plan was launched, specific objectives were also established to improve network sales and increase customer loyalty. These objectives will be ongoing for the duration of the plan.

Sales improvement and customer loyalty objectives for the RONA network

1. Increase sales penetration among customers with AIR MILES® cards from 53% to 60% of total retail sales
2. Increase the percentage of sales using the RONA credit card from 1.4% to 4%
3. Increase the percentage of private brand sales from 16% to 20%
4. Launch 15 innovative renovation concepts per year in the RONA by Design series
5. Increase sales of installation services from 1.5% to 4% in the retail sector
6. Increase the number of visits to rona.ca from 1 million to 2 million per month

Phase 2: Accelerated development

The second phase of the business plan focuses on accelerated development. RONA now operates in three segments that provide numerous growth opportunities: the retail sector, which includes RONA's corporate and franchise stores, the support and development of the RONA affiliate network, and the commercial and professional sector. The Company's growth will continue to rely on the four growth vectors that have contributed to our success over the last few years – comparable sales, new store openings, the recruitment of independent dealer-owners and acquisitions – but the vectors will be adjusted to suit each sector.

In the retail sector, the accent will be on standardization of the store network in combination with ongoing innovations in order to become THE solution for Canadian consumer complete housing needs. This development will be pursued by opening new stores, making acquisitions and developing innovative concepts. Concepts for paint stores, urban stores and ecological stores are already under study. In the affiliate sector, greater efforts will be devoted to recruitment activities in order to become the largest association of independent dealer-owners in Canada. This sector will also adapt the most recent innovations in the retail sector to the more targeted needs of affiliate stores. Finally, in the commercial and professional sector, RONA aims to become the national leader in specific product categories or regions that complement our retail operations, through both organic growth and acquisitions.

Although Phase 2 of the 2008–2011 strategic plan will gather more steam in 2010, several initiatives are already underway to improve sales and increase customer loyalty to the RONA network.

The last major component of the 2008–2011 strategic plan is related to RONA's commitment to sustainable development. While several extensive initiatives are already in place, we will continue to take action involving all sectors of the Company in order to become THE eco-responsible standard for our industry in Canada. In the very first year of the 2008–2011 strategic plan, RONA launched several promising initiatives in this area.

2008–2011 financial objectives

The main financial objectives of the 2008–2011 strategic plan are as follows:

1. Remain the industry leader in Canada, with a market share of over 20% and a special focus on Western Canada and Ontario. At the beginning of 2008, RONA's market share was estimated at 17%.
2. Increase annual earnings per share by low single digits on average in the first half of the plan, a period when we expect to face difficult market conditions, and double digits in the following years.¹
3. Optimize our return on invested capital.
4. Maintain an investment grade credit rating.

¹ In the "Outlook" section of this MD&A, we state that despite the positive effects of the PEP program, RONA management expects that the deteriorating economic conditions anticipated in upcoming quarters will prevent the Company from achieving the low single-digit average increase in earnings per share during the first half of its 2008–2011 plan.

The next section highlights our main achievements in 2008 under the 2008–2011 strategic plan.

Achievements in the year ended December 28, 2008

Achievements related to Phase 1 initiatives: The PEP program (productivity, efficiency, profitability)

1. Improve the profitability of our corporate store network:
 - Adjusted gross margin, excluding unusual items, increased 89 basis points in fiscal 2008, or 101 basis points if calculated excluding the effect of the significant shift in weighting of the distribution sector. Adjusted gross margin in the retail sector increased by 116 basis points as a result of better management of product categories, higher private brand sales, reduced store losses (shrinkage) and ongoing improvements in terms and conditions from our suppliers.
 - Several new initiatives to improve the profitability of under-performing stores, especially in terms of merchandising, targeted marketing and store losses (shrinkage). The process of opening new stores has also been improved since the beginning of the year. Integration of our most recent acquisitions – Dick's Lumber and Best-MAR – is continuing, with both companies posting improvements in EBITDA margins over the year.
 - Network optimization through the closing of two traditional and two big-box stores. Business volume from these stores has been transferred to existing RONA corporate stores, RONA affiliates or new stores.
 - Eight big-box stores under the Réno-Dépôt banner were renovated in 2008 and have posted much stronger results since the renovations.
2. Optimize the supply chain:
 - Comparable inventories were reduced \$118 million at year end 2008 compared to 2007 (excluding new stores and acquisitions) resulting in lower operating and financing costs. Including new stores and acquisitions, inventories were reduced by \$93 million.
 - Optimization of various available distribution channels, especially for imports and continuous flow distribution, resulting in a reduction in logistics costs by nearly \$6 million since the beginning of the year.

3. Accelerate recruitment of independent dealer-owners:
 - Over the course of 2008, from January 1 to December 28, RONA recruited 31 new independent dealer-owners from coast to coast, representing estimated annual retail sales of nearly \$132 million. Since the beginning of 2009, RONA has recruited 4 new dealer-owners, representing nearly \$19 million in annual retail sales.
 - Same-store sales in RONA's affiliate dealer-owner network increased 3.8% in 2008, reflecting the robustness of the dealer-owner network and their respective expansion projects.
4. Improve sales and increase customer loyalty across the RONA network:
 - 4.9% growth in distribution sector sales, stemming from the recruitment of new dealer-owners and the implementation of new sales programs to support our affiliates in their expansion projects and accelerate the conversion process of new affiliates.
 - Growth of over 10% in private brand sales in 2008 – a sales penetration rate of nearly 17%.
 - Over 20% growth in sales of installation services during the year.
 - An increase of close to 10% in sales to AIR MILES® customers since the beginning of the year.
 - An increase of over 14% in the number of new RONA Desjardins credit cards and over 12% in the volume of financing through Desjardins since the beginning of the year.
 - Over 240 new eco-responsible products, including 40 RONA ECO products, were presented at the RONA 2009 Spring Show at the end of November.
 - High visibility from the Beijing 2008 Olympics advertising campaign:
 - RONA broadcast a series of 10 commercials during the Games, demonstrating our support for Canadian athletes, our commitment to the Vancouver 2010 Games, our social and community involvement, and the commitment of our employees.
 - In the target 25-to-54 age group, RONA television advertising reached an average of 1.2 million people daily on the CBC network and an average of 401,000 daily on Radio-Canada.
 - In all, the Canadian English-language networks reached 24 million people during the 17-day competition and the French-language networks reached 6 million.
 - RONA posted the largest gain in consumer awareness following the advertising period, compared to the period preceding the campaign, of all the Olympic sponsors – an increase of nearly 20%, from 48% to 57%.

At year end 2008, RONA compiled an exhaustive list of all the PEP program initiatives that will be carried forward into 2009 and added new productivity, efficiency and profitability improvement measures. This list is presented in the "Outlook" section of this report on page 19.

Achievements related to 2008–2011 financial objectives

1. Remain the industry leader in Canada, with a market share of over 20% and a special focus on Western Canada and Ontario. At the beginning of 2008, RONA's market share was estimated at 17%:
 - In 2008, RONA recruited a total of 31 new dealer-owners from coast to coast, representing nearly \$132 million in annual retail sales. Nearly 50% of this business volume is from Western Canada, while 30% is from Ontario and 20% is from Quebec.
 - Since the beginning of the year, we opened six new stores, two big-box stores of over 100,000 square feet and four proximity stores measuring 52,000 square feet. The big-box stores are located in Halifax, Nova Scotia, and Candiac, Quebec. The proximity stores are located in Kamloops, British Columbia, Carleton Place and Grimsby, Ontario, and Thetford Mines, Quebec. As well, two existing stores were renovated in British Columbia, one in Kamloops and another in Squamish.
 - In 2008, eight big-box stores flying the Réno-Dépôt banner in Quebec were renovated and have subsequently posted strong sales growth. This \$20-million project, combined with the recent opening of a Réno-Dépôt store in Candiac, RONA store openings in Quebec, particularly in Brossard and Thetford

Mines, and a strong performance by our corporate and affiliate network in Quebec, has consolidated our position as the leader in this market. RONA generates nearly 45% of its consolidated sales in Quebec.

- In November 2008, for the first time in its history, RONA held its annual Spring Show in Toronto, Ontario – a reflection of the RONA network's rapid expansion outside Quebec in recent years. This event, held in a 100,000 square-foot exhibition space, brought together dealer-owners and managers of nearly 700 RONA stores across Canada, as well as most of our suppliers. RONA presented 2,000 new products, along with the new trends that will be rolled out in spring 2009.
 - In light of the numerous development initiatives outlined above, RONA estimates its share of the Canadian construction/renovation market at 17.5% at the end of 2008, compared to 17% at the beginning of the year.
2. Increase annual earnings per share by low single digits on average during the first half of the plan, a period when we expect to face difficult market conditions, and double digits in the following years:
- Given market conditions that were even more difficult than anticipated at the beginning of the year, RONA posted a 13.8% decrease in diluted earnings per share, including unusual items, in 2008. Diluted earnings per share decreased from \$1.59 in 2007 to \$1.37 in 2008. Diluted earnings per share excluding unusual items, however, were \$1.47, a much less pronounced decrease of \$0.12 or 7.5%, compared to 2007.
 - The Company has started to benefit from the various efficiency improvement measures introduced under the PEP program. In 2008, RONA was able to mitigate the slide in same-store sales caused by the decline in consumer confidence. The numerous efficiency improvement measures ongoing under this program will continue to produce gains over the next year and help offset the negative effects of the downward pressure on sales in our industry.
 - While the PEP program helped to largely offset the negative effects related to the more difficult conditions than expected since the beginning of the year, the extent of the current global financial crisis brings a high degree of uncertainty in terms of future consumer activity. RONA management estimates that the expected decline in the economic environment in upcoming quarters will prevent it from achieving its low-single-digit-growth objective for average earnings per share in the first half of the 2008–2011 business plan.
 - Management is nevertheless optimistic about the fundamental factors that support demand for and popularity of renovation projects, especially as this demand should be stimulated by the renovation tax credits announced by the federal government and Quebec's government in 2009 and RONA's special complementary incentive measures.
 - The Company also plans to actively pursue the various PEP program measures currently underway to stimulate and improve efficiency in the coming quarters and will take good care to adapt our operations and capital investments to the unusual economic conditions we anticipate in 2009. Finally, management believes that the current market conditions increase the potential for consolidating the Canadian market, especially through recruitment of independent dealer-owners. RONA plans to maintain a solid balance sheet in order to seize the growth opportunities that arise during or near the end of the recession.
3. Optimize our return on invested capital:
- Since the beginning of the year, RONA has made considerable efforts to optimize our existing network, rationalize its invested capital and optimize its most recent investments, including significant reductions of comparable inventories in every quarter, the sale of non-core assets, closure of under-performing stores and reduction of store construction costs. Disciplined management of capital asset investments and strong growth of the distribution business has also played a part. However, the current pressure on sales and profitability has temporarily masked the success of these promising initiatives in terms of the optimization of our returns on invested capital.

4. Maintain an investment grade credit rating:

- RONA managed its balance sheet in a very disciplined manner in 2008, improving the Company's principal debt ratios despite the difficult market environment. We also reduced comparable inventories by \$118 million compared to year end 2007. These initiatives and the increase in our working capital helped reduce the Company's net indebtedness by \$163.2 million compared to last year, a reduction of 25.0%. At year end, RONA was using only \$42 million of its \$650 million in credit facilities that will expire in 2012.
- On December 28, 2008, the ratio of total debt to capital stood at 25.2%, compared to 33.1% at year end 2007. The equity/asset ratio was 59.6% at year end 2008, compared to 53.4% in 2007. These ratios are at the level expected by the Company.

ANALYSIS OF CONSOLIDATED RESULTS FOR THE YEAR ENDED DECEMBER 28, 2008

Economic conditions

Overall conditions in 2008 were relatively favourable for renovations in Quebec and the Atlantic Provinces, where RONA generates nearly 50% of its sales. But significant increases in housing prices continued to affect construction/renovation activities in the western part of the country, especially in Alberta, which had accumulated a high inventory of unsold new homes, and in British Columbia, where housing prices had become very expensive. In Ontario, single-family home construction/renovation activities were affected by economic difficulties in the province, which has been deeply affected by the auto industry slowdown.

Furthermore, housing starts for urban single-family homes dropped 18.1% in Canada in 2008, according to CMHC estimates. The decline was particularly heavy in Alberta, where housing starts for single-family homes decreased by 44%, compared to 19.8% in British Columbia and 15.1% in Ontario. In Quebec, the decline in housing starts was far less pronounced, at 5.3%, while in the Atlantic Provinces single-family housing starts increased by 13.2%, reflecting robust economic growth in Nova Scotia and Newfoundland. The most recent statistics for housing resales and average house prices also show a decline, especially in Alberta, British Columbia and Ontario.

Starting in the third quarter, the economic situation changed drastically across the country. In the face of the current global financial and economic crisis, economic uncertainty has reached new heights, and consumer confidence has been severely eroded. According to a recent poll published by the Conference Board of Canada, Canadian consumer confidence reached its lowest ebb in 26 years last December, in spite of a slight rally due to the major decrease in gas prices in November.

In light of these circumstances and the projected decline in the consumer price index, the Bank of Canada reduced its prime rate several times over the last few months. After the recent decrease of 50 basis points in January, the prime rate stood at 1.50%. According to the Bank of Canada's latest *Monetary Policy Report* in January, Canadian GDP is expected to shrink by 1.2% in 2009. In 2008, the Canadian economy posted a 0.7% increase in GDP, while in 2007 GDP grew by 2.7%.

The current interest rate environment remains favourable to high levels of housing starts and resales. In addition, inflationary pressures have declined considerably in recent months. Access to credit is more limited, however, and as previously mentioned, consumer confidence is at an extremely low level.

We must keep in mind, however, that fundamental trends are very favourable for renovations in Canada. More than 65% of existing dwellings are over 25 years old. Baby boomers represent roughly 30% of the population and they are investing major sums in their home or cottage. And there is still plenty of interest in interior decorating and gardening activities. Another strong trend is developing for backyard and patio decoration, as consumers embrace "outdoor living." Last but not least, next-generation Canadians are looking for one-stop solutions for their renovation projects and outstanding service in a friendly store near their home. RONA is tracking all these different trends closely as we develop new store formats and concepts, select our products and develop innovative services.

The current business environment is also highly favourable to the consolidation of the construction/renovation market in Canada, especially through recruitment of independent dealer-owners. RONA's recruitment results demonstrate clearly that in difficult times, independents want to join ranks with an organization that enjoys a strong reputation and can provide not only increased purchasing power but also management and development tools to help them improve their performance and establish a solid growth plan.

Consolidated sales

Consolidated sales for the year ended December 28, 2008, stood at \$4,891.1 million, up \$106.0 million, or 2.2% higher than the \$4,785.1 million posted in 2007. This growth stems from six new stores opened during the year, recruitment of 31 new affiliate dealer-owners and integration of recent acquisitions. Excluding major acquisitions (Noble Trade, Dick's Lumber, Centre de Rénovation André Lessard and Best-MAR), however, consolidated sales were 1.3% lower. Sales generated by the new stores opened or recruited over the last 12 months could not compensate for the decline in our same-store sales, which decreased 4.0% in 2008, excluding 0.6% deflation in the average price of forest products.

The decline in sales excluding acquisitions can be attributed, as explained earlier, to the ongoing decline in the level of consumer confidence in Canada, as well as the drop in housing starts and resales of single-family homes, especially in Alberta, Ontario and British Columbia. Despite lower figures for in-store transactions, due to the factors mentioned above, RONA's loyalty-building and sales-boosting activities, combined with employee efforts to offer the best service and shopping experience in the industry, have helped increase our average shopping basket. Sales declined in most product categories, indicating a general decline in consumer activity since the beginning of the year. Sales of RONA private brand products and installation services, however, experienced strong growth since the beginning of the year.

Adjusted Gross margin

The adjusted gross margin, excluding unusual items, rose by 89 basis points in 2008, from 29.24% in 2007 to 30.13%. If calculated excluding the effect of the significant shift in weighting of the distribution segment, the margin actually increased by 101 basis points. Adjusted gross margin in the retail segment increased by 116 basis points. This growth stems from better management of our product categories, higher private brand sales, reduced store losses (shrinkage) and ongoing improvement of terms and conditions from our suppliers.

Unusual items

Over the course of 2008, as part of a broad program to improve efficiency and optimize the existing RONA store network, the Company made a decision to close four non-performing stores and transfer the business volume from these stores to other nearby RONA stores. During the second quarter, the Company sold certain non-core assets and realized a before-tax gain of \$1.4 million. During the third quarter, the Company recorded unusual costs related to the cancellation of future commitments. Also in the fourth quarter, the Company posted unusual costs of \$0.9 million related to the store closures announced in the second quarter. For the year ended December 28, 2008, net unusual costs of \$16.0 million were accounted for, of which \$12.2 million affected operating income and \$3.8 million affected amortization, depreciation and financing costs. After taxes, the total unusual costs for 2008 were \$11.0 million.

Consolidated operating income

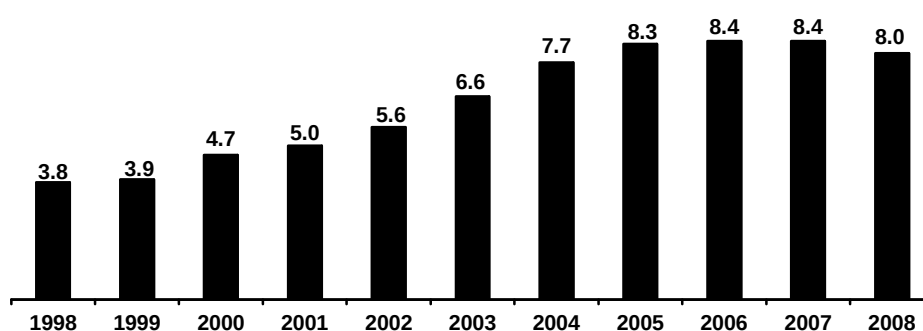
Operating income, including unusual items, was \$377.1 million for the year ended December 28, 2008, down \$23.1 million, or 5.8%, from the \$400.2 million posted in 2007. The EBITDA margin dropped 65 basis points from 8.36% in 2007 to 7.71% in 2008, largely due to the unusual items explained above and downward pressure on same-store sales.

Excluding the unusual items posted in the second, third and fourth quarters of 2008, operating income was \$389.3 million for 2008, down \$10.9 million or 2.7% from 2007. The EBITDA margin dropped 40 basis points to 7.96% in 2008 from the 8.36% recorded in 2007.

This decline in operating income is largely the result of current pressure on sales in the construction/renovation industry due to the low level of consumer confidence. This pressure had a more substantial impact on first and fourth quarter results than on the second and third quarters because the beginning and end of the year represent the period when store traffic is at its lowest and variable costs are harder to contain. New stores that had not yet reached their full potential also contributed to the decline in operating income. The numerous efficiency improvements introduced under the PEP program in the first phase of the 2008–2011 strategic plan have nevertheless helped offset the negative effects of these factors. Since the beginning of the year, the PEP program has, for example, allowed us to improve our adjusted gross margin, reduce inventory levels, optimize the network of existing stores, improve logistics, accelerate recruitment of independent dealers and improve the process for opening new stores.

The main reason for the decline in the EBITDA margin is the strong growth in distribution activities stemming from recruitment of independent dealer-owners and strong performance by our existing network of affiliates. We should mention here that distribution activities generate lower margins than retail activities, which explains the downward pressure on the EBITDA margin. Although these development activities negatively affected the EBITDA margin, they generated a positive impact on the Company's return on capital. It should be added that pressure on sales in the construction/renovation industry as a result of the decline in consumer confidence also affected the EBITDA margin this year, although the efficiency improvements under the PEP program helped mitigate these negative effects.

RONA: EBITDA Margin (%), 1998-2008



Note: The EBITDA margin for 2008 excludes unusual items

Interest, depreciation and amortization

RONA's interest expenses on long-term debt and bank loans in 2008 decreased by \$1.4 million to \$30.2 million compared to \$31.6 million in 2007. The increase in interest costs at the beginning of the year, due to the increased debt incurred for expansion of our network, including the acquisition of Noble Trade in April 2007 and Dick's Lumber in December 2007, was offset by highly disciplined management of our balance sheet and capital investments, resulting in a drop in the Company's indebtedness starting in the second quarter, as well as by the decline in interest rates over the course of the year.

Amortization and depreciation for 2008 rose to \$108.1 million, compared to \$90.9 million in 2007, an increase of \$17.2 million. A charge of \$3.3 million was accounted for this year in relation to the closure of under-performing stores. Excluding this amount, amortization and depreciation amounted to \$104.8 million for 2008, an increase of \$13.9 million or 15.3% over 2007. This increase stems from new corporate store openings, acquisitions, the renovation program for existing corporate stores and ongoing improvements to our information systems.

Income taxes

Income taxes for 2008 were \$73.5 million, for an effective tax rate of 30.8%. Last year, RONA's income taxes were \$88.1 million, for an effective rate of 31.7%. This reduction in the effective tax rate is due to the lowering of the basic federal tax rate.

Net earnings

Net earnings for 2008, including unusual items, dropped by 13.4% to \$160.2 million, or \$1.37 diluted earnings per share, compared to \$185.1 million in 2007, or \$1.59 diluted earnings per share. The factors that affected operating income also apply to the change in net earnings. Net earnings were also influenced by the increase in fixed costs related to the growth of the network, especially the amortization of recent store openings and acquisitions.

Excluding unusual items, net earnings totalled \$171.2 million in 2008, or \$1.47 diluted earnings per share, compared to \$185.1 million or \$1.59 diluted earnings per share in 2007. This amounts to a decrease of \$13.9 million or 7.5%, reflecting pressure on sales in the construction/renovation industry, which could not be entirely compensated for by the efficiency improvement measures implemented at the beginning of the year.

ANALYSIS OF SEGMENT RESULTS FOR THE YEAR ENDED DECEMBER 28, 2008

RONA: Key segment figures

(In thousands of dollars)	2008	2007	\$ Change from 2007	% Change from 2007
Segment sales				
Corporate and franchise stores	3,741,748	3,688,966	52,782	1.4%
Distribution	2,357,209	2,327,302	29,907	1.3%
Total	6,098,957	6,016,268	82,689	1.4%
Intersegment sales and royalties				
Corporate and franchise stores	—	—	—	—
Distribution	(1,207,835)	(1,231,162)	23,327	(1.9%)
Total	(1,207,835)	(1,231,162)	23,327	(1.9%)
Sales				
Corporate and franchise stores	3,741,748	3,688,966	52,782	1.4%
Distribution	1,149,374	1,096,140	53,234	4.9%
Total	4,891,122	4,785,106	106,016	2.2%
Operating income				
Corporate and franchise stores	299,998	324,305	(24,307)	(7.5%)
Distribution	77,103	75,902	1,201	1.6%
Total	377,101	400,207	(23,106)	(5.8%)
Operating income (Excluding unusual items)				
Corporate and franchise stores	312,220	324,305	(12,085)	(3.7%)
Distribution	77,103	75,902	1,201	1.6%
Total	389,323	400,207	(10,884)	(2.7%)
EBITDA margin				
Corporate and franchise stores	8.02 %	8.79 %	—	-77 b.p.
Distribution	6.71 %	6.92 %	—	-21 b.p.
Total	7.71 %	8.36 %	—	-65 b.p.
EBITDA margin (Excluding unusual items)				
Corporate and franchise stores	8.34 %	8.79 %	—	-45 b.p.
Distribution	6.71 %	6.92 %	—	-21 b.p.
Total	7.96 %	8.36 %	—	-40 b.p.

Note: In the first quarter of 2008, the Company reviewed its segmented information analysis method and, as a result, modified the presentation of such information between segments. The 2007 comparable period was adjusted accordingly.

Corporate and franchise stores: sales up 1.4%, operating income excluding unusual items down 3.7%, and EBITDA margin excluding unusual items down 45 basis points

In 2008, sales from the corporate and franchise store segment amounted to \$3,741.7 million, an increase of \$52.8 million or 1.4% over 2007. Acquisitions made in 2007 – Noble Trade, Dick's Lumber and Centre de Rénovation André Lessard and (in early 2008) Best-MAR – were a major growth factor. Excluding the contributions of these acquisitions, sales in this segment decreased by 3.0%. Sales generated by the new stores opened in the last 12 months net of store closures failed to compensate for the drop in same-store sales, which declined by 4.0% in 2008, excluding the 0.6% decrease in the average price of forest products. The decrease in same-store sales stems from an ongoing decline in the level of consumer confidence in Canada, as well as a decline in housing starts and resale of single-family homes, especially in Alberta.

Several initiatives were introduced at the beginning of the year to boost sales and mitigate the downward pressure on our industry. These initiatives, such as the Project Guide, new RONA by Design concepts, and new private brand products, including a line of eco-responsible products, have produced very good results and increased the average shopping basket since the beginning of the year. These initiatives have not, however, been able to completely eliminate the effect of fewer store visits caused by the slowdown in the country's economic growth and the related drop in consumer confidence.

We pursued the development of our corporate and franchise network in 2008 by opening six new stores: two 100,000-square-foot big-box stores, and four 52,000-square-foot proximity stores. The big-box stores are located in Halifax, Nova Scotia, and Candiac, Quebec. The proximity stores are located in Kamloops, British Columbia, Carleton Place and Grimsby, Ontario, and Thetford Mines, Quebec. Two existing stores were also renovated in British Columbia, one in Kamloops and one in Squamish. Finally, eight big-box stores under the Réno-Dépôt banner in Quebec were renovated this year and have subsequently shown strong sales growth.

Operating income from retail activities totalled \$300.0 million in 2008, compared to \$324.3 million in 2007. The EBITDA margin for retail activities dropped from 8.79% in 2007 to 8.02% in 2008. Excluding the unusual items mentioned in the consolidated results analysis, operating income stood at \$312.2 million for 2008, down \$12.1 million, or 3.7%, from 2007. Despite a major increase in the adjusted gross margin and other efficiency gains, the EBITDA margin dropped from 8.79% in 2007 to 8.34% in 2008, a reduction of 45 basis points. This decline was due to pressure on same-store sales and on the results of recently opened stores that had not yet achieved their full potential. As explained in the consolidated results analysis, the numerous optimization measures introduced under the PEP program in Phase 1 of our 2008–2011 strategic plan nevertheless mitigated the negative effects of these two factors. For example, in the retail segment, the PEP program increased the adjusted gross margin, optimized the existing store network and improved the new store opening process.

Distribution: Sales up 4.9%, operating income up 1.6% and EBITDA margin down 21 basis points

Net of intersegment activities, distribution sales increased by 4.9% to \$1,149.4 million in 2008, compared to \$1,096.1 million in 2007. This increase is the result of the recruitment of independent dealer-owners and high purchase volume from our affiliate dealer-owners in the second half of the year. Performance in the RONA affiliate network is strong and newly recruited dealer-owners generally enjoy a healthy increase in sales when they join RONA. In 2008, we also expanded the support functions we offer to affiliates to give them better management tools and help them achieve their numerous development projects. Same-store sales in the affiliate network were up 3.8% in 2008, reflecting the strength of the affiliate network and their respective expansion projects.

During fiscal 2008, from January 1 to December 28, RONA recruited 31 new independent dealer-owners from coast to coast, representing estimated annual retail sales of nearly \$132 million. Major efforts were invested throughout the year to accelerate the integration of newly recruited dealer-owners and further improve the already high degree of loyalty among existing ones.

Distribution activities produced operating income of \$77.1 million in 2008, compared to \$75.9 in 2007, an increase of \$1.2 million, or 1.6%. The EBITDA margin declined, however, by 21 basis points. The increase in operating income stems mainly from additional sales volume, as well as improved demand management and supply planning, which reduced the amount of space required for distribution. It is also due to the optimization of available distribution channels, which reduced logistics costs. These improvements helped significantly reduce inventory levels in our distribution centres since the beginning of the year.

The decrease in EBITDA margin can be attributed to temporary increase in inventories of certain low-priced building materials at year end and overall higher sales of building materials by our affiliate store network, given an improved purchasing program introduced for our affiliates specialised in building materials. These products generate a lower EBITDA margin than hardware products because they are usually shipped to the affiliates directly by the supplier. The increased sales volume resulted in an improvement in the segment's operating income but a decrease in its EBITDA margin.

CASH FLOWS AND FINANCIAL POSITION

Operations generated cash flows of \$275.0 million in 2008, compared to \$286.2 million in 2007. Net of changes in working capital, operations generated \$350.3 million, compared to \$276.8 in 2007, an increase of \$73.5 million or 26.6%. Comparable inventories were reduced by \$118 million in 2008. As the table below shows, comparable inventory levels declined significantly in every quarter in 2008.

Reduction in comparable inventories

(In millions of dollars)	First quarter 2008	Second quarter 2008	Third quarter 2008	Fourth quarter 2008
Inventory at end of the corresponding period in 2007	\$944	\$959	\$872	\$856
Reduction in comparable inventories	\$83	\$118	\$80	\$118
Reduction (percent)	8.8%	12.3%	\$9.2%	13.8%

In second quarter 2008, RONA decided to reduce its planned capital spending program from \$240 million to \$200 million, in view of market conditions that were more difficult than expected. RONA ended the year with investments in capital assets totalling \$196.1 million, a difference of \$37.6 million, or 16.1% less than the \$233.7 million invested in 2007.

These investments were dedicated to the expansion of our retail network, including new store construction, as well as repairs, renovations and upgrades in existing stores to reflect new concepts – particularly stores under the Réno-Dépôt banner. We also committed part of these investments to ongoing improvements to our information systems in order to increase operational efficiency. The Company practised disciplined financial management throughout the year and strictly monitored its capital asset investments.

Thanks to the substantial funds generated by disciplined management of our working capital and capital spending since the beginning of the year, the Company's net debt on December 28, 2008, was \$490.3 million. This is a decrease of \$163.2 million, or 25.0%, compared to 2007.

The table below presents a synopsis of the Company's contractual obligations as at December 28, 2008, including off-balance-sheet operating lease agreements used in the normal course of business. The Company has also concluded other off-balance-sheet arrangements (such as inventory buyback agreements and guaranteed mortgage loans), which do not appear on the table below. For a detailed description of these arrangements, please see note 18 of the consolidated financial statements.

RONA: Contractual obligations by term
(As at December 28, 2008)

Contractual obligations	Payments by term (In thousands of dollars)				
	Total	Less than 1 year	1-2 years	3-4 years	5 years or more
Long-term loans	477,557	4,713	9,815	54,766	408,263
Obligations under capital leases	11,467	5,016	5,561	819	71
Operating and other leases	1,220,581	120,466	228,981	201,701	669,433
Other long-term obligations	38,126	19,007	15,919	3,200	-
Total	1,747,731	149,202	260,276	260,486	1,077,767

RONA: Outstanding shares
As at January 31, 2009

Common shares	115,820,540
Unexercised options	1,965,569
Total	117,786,109

RONA's balance sheet remains very strong. On December 28, 2008, the ratio of total debt to capital was 25.2%, compared to 33.1% at the end of 2007. The equity/asset ratio was 59.6% at the end of 2008, compared to 53.4 % a year earlier.

RONA's access to revolving credit increased by \$150 million on July 11, 2008, for a current total of \$650 million. At the end of fiscal 2008, \$42 million had been drawn on the total. Renewal of this credit facility is projected for 2012, and the unsecured debentures that constitute the major portion of the Company's long-term debt mature in 2016. RONA's operations also produce significant cash flows. With relatively low debt and long-term fixed rates on most of its long-term debt, RONA has significant liquidity and can borrow many millions more at advantageous rates. Our financial resources are therefore sufficient to face the current recession and pursue the disciplined development of our four growth vectors: growing sales in our existing store network, construction of new corporate and franchise stores, recruitment of new affiliate stores and acquisitions.

QUARTERLY PERFORMANCE

RONA's results fluctuate significantly from one quarter to another because of the considerable seasonality of construction/renovation activities. The strongest periods of the year are in spring and fall, and over 80% of the Company's net annual earnings are generated in the second and third quarters. Sales in the first quarter are always lower than in the other three, due to low activity levels in the construction/renovation sector during the winter. Finally, weather conditions can have a major impact on sales. With the increase in the proportion of our activities related to the corporate stores and franchise segment, and the greater proportion of products related to building materials, the seasonal effect of the first quarter has been more pronounced in 2007 and 2008 than in previous years. The second quarter is always the year's strongest, followed by the third.

RONA: Consolidated quarterly financial results
(In millions of dollars, except earnings per share)

	2008				2007				2006
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4*
Sales	1,124.6	1,381.7	1,473.3	911.5	1,087.0	1,350.5	1,469.1	878.5	1,141.3
Operating income	70.9	115.5	157.3	33.4	75.9	121.6	161.8	40.9	86.7
Operating income (excluding unusual items)	71.8	124.0	160.1	33.4	75.9	121.6	161.8	40.9	86.7
Net earnings	25.7	53.4	80.1	1.0	30.5	59.4	86.2	9.0	38.1
Net earnings (excluding unusual items)	26.3	59.8	84.1	1.0	30.5	59.4	86.2	9.0	38.1
Earnings per share (\$)	0.22	0.46	0.69	0.01	0.26	0.52	0.75	0.08	0.33
Earnings per share (\$) (excluding unusual items)	0.23	0.52	0.73	0.01	0.26	0.52	0.75	0.08	0.33
Diluted earnings per share (\$)	0.22	0.46	0.69	0.01	0.26	0.51	0.74	0.08	0.33
Diluted earnings per share (\$) (excluding unusual items)	0.23	0.51	0.72	0.01	0.26	0.51	0.74	0.08	0.33

* Q4 2006 has 14 weeks compared to 13 weeks for the other quarters.

Annual change in same-store sales
Nine last quarters

Same-store sales excluding change in average price of forest products

Q4-2006	Q1-2007	Q2-2007	Q3-2007	Q4-2007	Q1-2008	Q2-2008	Q3-2008	Q4-2008
-0.7%	+1.1%	+1.4%	+0.1%	-2.1%	-6.5%	-4.4%	-2.3%	-0.8%

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

Quarterly performance in 2007

First quarter

Consolidated sales in first quarter 2007 totalled \$878.5 million, 10% higher than the \$798.8 million posted in 2006. This growth stemmed largely from acquisitions and store openings, as well as from recruitment of new affiliate dealer-owners. Consolidated growth (minus major acquisitions – Chester Dawe, Curtis Lumber, Matériaux Coupal and Mountain Building Centres) was 4.7%. This organic growth resulted from sales generated by new stores opened in the last 12 months and increases in distribution network revenues.

Same-store sales increased by 1.1% in the first quarter, excluding 1.2% deflation in average price of forest products. This growth was recorded mostly in stores located in the western part of the country, where economic activity remained higher than in Ontario and Quebec.

Net earnings for first quarter 2007 stood at \$9.0 million or \$0.08 per share, compared to \$16.4 million in 2006, or \$0.14 per share. Half of the decline can be attributed to temporary and foreseen effects, which were expected to diminish over the subsequent quarters. 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.

Second quarter

Consolidated sales in second quarter 2007 totalled \$1,469.1 million, 9.1% higher than the \$1,346.0 million posted in 2006. This increase was mainly due to acquisitions and store openings. Consolidated growth (minus major acquisitions – Noble Trade, Curtis Lumber and Mountain Building Centres) was 4.8%. This organic growth was the

result of sales generated by new stores opened in the last 12 months, the acquisition of affiliate stores and a slight increase in sales in the distribution network. Excluding the effects of the 1.1% drop in the average price of forest products, same-store sales increased by 1.4% during this quarter.

Net earnings in second quarter 2007 were \$86.2 million, \$0.74 diluted earnings per share, in comparison to \$80.0 million or \$0.69 diluted earnings per share in 2006, an increase of 7.7% in net earnings and 7.2% in diluted earnings per share. This gain was due in large part from the early effects of additional measures to support earnings growth implemented when the first quarter results were published, the contribution of acquisitions in the corporate and franchise store segment, including synergies related to those acquisitions, and efforts to improve performance in the distribution segment. These positive developments were weakened, however, by increased financing expenses and amortization costs related to the expansion of our network because certain of these recent investments were not yet generating their full potential contribution to the Company's consolidated results. Despite slower growth in the construction/renovation industry, RONA continued to invest in several development projects to shore up its positioning in the years ahead.

Third quarter

Consolidated sales for third quarter 2007 totalled \$1,350.5 million, 6.7% higher than the \$1,265.8 million posted in 2006. This growth stemmed largely from acquisitions and store openings. Consolidated growth (minus major acquisitions – Noble Trade, Curtis Lumber and Mountain Building Centres) was 2.5%. This organic growth was the result of sales generated by new stores opened in the last 12 months and the acquisition of affiliate stores. Same-store sales increased by 0.1% in the third quarter, excluding 0.7% deflation in the average price of forest products. Major efforts were made in the third quarter to stimulate sales and traffic in our stores by introducing promotional activities across the RONA network, resulting in an increase in the average shopping basket during the third quarter. With their confidence flagging in the eastern part of the country for the last few quarters, however, consumers seemed to be delaying some renovation projects, resulting in a slight reduction in the number of transactions over the quarter.

Net earnings for third quarter 2007 were \$59.4 million, or \$0.51 diluted earnings per share, compared to \$56.1 million, or \$0.48 diluted earnings per share in 2006, an increase of 5.9% in net earnings and 6.3% in diluted earnings per share. This gain was mainly due to the impact of additional measures to support earnings growth, the contribution of acquisitions in the corporate and franchise store segment, including synergies related to those acquisitions, and efforts to improve performance in the distribution segment. These improvements were weakened, however, by increased financing expenses and amortization costs related to the expansion of our network.

Fourth quarter

Consolidated sales in the fourth quarter totalled \$1,087.0 million, 4.8% less than the previous year. On a comparable basis (weekly average), consolidated sales rose by 2.6%. The growth stemmed from corporate and franchise sales. On a weekly basis, organic growth in our consolidated sales (consolidated sales less major acquisitions) decreased by 1.9%.

Net earnings for fourth quarter 2007 were \$30.5 million, or \$0.26 diluted earnings per share, compared to \$38.1 million, or \$0.33 diluted earnings per share in 2006. This decrease resulted largely from the extra week in 2006 and from a non-recurring after-tax expense of \$1.4 million incurred in the fourth quarter for an exhaustive study of the Company's supply chain. This study allowed RONA to undertake an extensive supply chain optimization exercise, which significantly improved our operational efficiency beginning in 2008. Finally, numerous activities were undertaken during the quarter to stimulate sales in a more difficult business climate.

Quarterly performance in 2008

First quarter

Consolidated sales in first quarter 2008 totalled \$911.5 million, \$33.0 million, or 3.8%, higher than the \$878.5 million posted in 2007. This growth was largely the result of acquisitions and store openings as well as recruitment of new dealer-owners. Excluding major acquisitions (Noble Trade, Dick's Lumber, Centre de Rénovation André Lessard and Best-MAR), however, consolidated sales were actually 3.5% lower. Sales generated by the new stores opened in the last 12 months failed to compensate for the decline in same-store sales, which decreased by 5.2% in first quarter 2008, excluding 0.5% deflation of average price of forest products and the estimated 1.3% negative impact of statutory holidays. A new holiday ("Family Day") was introduced in Ontario, and the Easter weekend occurred in the first quarter this year instead of the second quarter (in 2007).

Net earnings for first quarter 2008 were \$1.0 million or \$0.01 per share, compared to \$9.0 million or \$0.08 per share in 2007. This decline can be explained by pressure on sales in the construction/renovation industry resulting from the low level of consumer confidence and the effects of poor weather conditions. The decline was also related to recently opened stores that had not yet reached their full potential. A rapid adjustment of the Company's cost structure at the beginning of the year failed to offset these factors, since this is the time when traffic in stores is at its lowest and variable costs are harder to contain. The first quarter historically represents only about 15% of annual sales and 5% of annual earnings.

However, these results mask a number of efficiency improvements posted under the PEP program in the first phase of the 2008–2011 strategic plan. In the first quarter, this program allowed us to improve our adjusted gross margin, reduce comparable inventory levels, optimize our network of existing stores and distribution centres, and improve results from recent store openings.

Second quarter

Consolidated sales in second quarter 2008 totalled \$1,473.3 million, \$4.2 million, or 0.3%, higher than the \$1,469.1 million posted in 2007. This growth stemmed from new store openings, recruitment of new dealer-owners and acquisitions. Excluding major acquisitions (Dick's Lumber, Centre de Rénovation André Lessard and Best-MAR), however, consolidated sales were actually 2.2% lower. Sales generated by new stores and new recruits over the last 12 months failed to offset the decline in same-store sales, which decreased by 4.4% in second quarter 2008, excluding 0.5% deflation of the average price of forest products. Same-store sales benefited from an estimated 1.1% positive effect related to statutory holidays, as second quarter 2008 had two more business days than in the previous year: one related to the Easter holiday (which had occurred in first quarter 2008), and another related to the Canada Day holiday, which is included in the third quarter this year, rather than in the second as it was last year.

Net earnings in second quarter 2008, including unusual items, declined by 7.0% to \$80.1 million or \$0.69 diluted earnings per share, compared to \$86.2 million or \$0.74 diluted earnings per share in 2007. Excluding the unusual items related to the cost of store closures and the gain on disposition of assets mentioned above, net earnings were \$84.1 million in the second quarter of 2008, or \$0.72 diluted earnings per share, compared to \$86.2 million in 2007, or \$0.74 diluted earnings per share – a decrease of \$2.1 million, or 2.4%. This decline was largely the result of downward pressure on sales in the construction/renovation industry due to lower levels of consumer confidence. The decline was also attributable to an unfavourable fluctuation in exchange rates, rising transportation costs and results from recently opened stores that had not yet reached their full potential. The numerous efficiency improvements posted under the PEP program in the first phase of the 2008–2011 strategic plan helped offset the impact of these negative factors, however. In the second quarter, for example, the PEP program allowed us to improve our adjusted gross margin, reduce inventories and optimize our network of existing stores and distribution centres.

Third quarter

Consolidated sales in third quarter 2008 totalled \$1,381.7 million, \$31.2 million, or 2.3%, higher than the \$1,350.5 million posted in 2007. This growth stemmed from store openings, recruitment of new affiliate dealer-owners, acquisitions and higher distribution sales. Excluding major acquisitions (Dick's Lumber, Centre de Rénovation André Lessard and Best-MAR), however, consolidated sales were actually 0.3% lower. Strong growth in distribution sales and sales generated by new stores opened in the last 12 months almost entirely offset lower same-store sales and the loss of revenue from stores closed in the last months. In third quarter 2008, same-store sales decreased by 2.3%, excluding 0.7% deflation of the average price of forest products. Same-store sales include a positive effect related to the timing of statutory holidays, evaluated at 0.5%.

Net earnings for third quarter 2008, including unusual items, decreased by \$6 million, or 10.2%, to \$53.4 million or \$0.46 diluted earnings per share, compared to \$59.4 million or \$0.51 diluted earnings per share in 2007. Excluding the unusual items, net earnings totalled \$59.8 million in third quarter 2008, or \$0.51 diluted earnings per share, compared to \$59.4 million or \$0.51 diluted earnings per share, an increase of \$0.4 million or 0.6%, reflecting the major efforts made throughout the quarter to stimulate sales and improve operational efficiency in order to offset the negative effects of downward pressure on sales in the construction/renovation industry.

Fourth quarter

Consolidated sales for fourth quarter 2008 totalled \$1,124.6 million, \$37.6 million, or 3.5%, higher than the \$1,087.0 million posted in 2007. This growth stemmed from store openings, recruitment of new affiliate dealer-owners, acquisitions and increased distribution sales. Consolidated growth (minus major acquisitions – Dick's Lumber, Centre de Rénovation André Lessard and Best-MAR) was 1.5 %. Sales generated by new stores opened in the last 12 months and a 15.3% or \$34.2 million increase in distribution sales coming from a strong performance by our affiliate network and rapid integration of newly recruited dealer-owners more than compensated for the decline in same-store sales. The increase of distribution sales is attributable to temporary increase in inventories of low-priced building materials at year end and overall higher sales of building materials by the affiliate stores network, given an improved purchasing program introduced for our building material specialists.

In fourth quarter 2008, same-store sales declined by only 0.8%, excluding 0.6% deflation of the average price of forest products. Quebec, the Prairies and Atlantic Canada performed well this quarter, but could not entirely offset the effects of downward pressure on sales in Alberta, British Columbia and Ontario, the provinces most deeply affected by the economic slowdown.

Net earnings in the fourth quarter of 2008, including unusual items, declined by \$4.8 million, or 15.7%, to \$25.7 million or \$0.22 diluted earnings per share, compared to \$30.5 million or \$0.26 diluted earnings per share in 2007. Excluding unusual items, net earnings totalled \$26.3 million in fourth quarter 2008, or \$0.23 diluted earnings per share, in comparison to \$30.5 million or \$0.26 diluted earnings per share in 2007, a decrease of \$4.2 million or 13.8%. Major efforts made throughout the quarter to stimulate sales and improve operational efficiency could not entirely mitigate the negative effects of downward pressure on sales in the construction/renovation industry.

OUTLOOK

As the "Economic conditions" section explained in some detail, the economic situation changed significantly towards the end of the third quarter. In the current ongoing global financial and economic crisis, economic uncertainty has reached new heights, with the result that consumer confidence has been hit hard, according to the most recent surveys.

With the Bank of Canada's numerous rate decreases in 2008 and early 2009, the current interest rate environment remains favourable to high housing starts and resale levels. Access to credit, however, is becoming increasingly limited, and consumer confidence is lower than at any time in the past 26 years.

While the PEP program largely offset the negative effects related to worse-than-anticipated conditions caused by the scope of the global economic crisis since the beginning of the year, RONA management believes that the expected decline in the economic environment over the next few quarters will prevent the Company from achieving its low-single-digit growth objective for average earnings per share in the first half of the 2008–2011 business plan.

Management is nevertheless optimistic about the fundamental factors that support the demand for and popularity of renovation projects, especially as this demand should be stimulated by the renovation tax credits announced by the federal and provincial governments in early 2009, and by RONA's own complementary incentive measure.

The Company intends to actively pursue the various efficiency improvement measures underway in the PEP program to stimulate sales and improve efficiency over the next quarters. Some of these are promising initiatives we introduced in 2008. Others are new initiatives, which will be also based on the four major projects unveiled in 2008. Key measures to be put in place under the PEP program in 2009 are as follows:

Improve the profitability of our corporate stores network:

- Continue to increase the retail segment's adjusted gross margin.
- Continue to reduce loss rates in stores (shrinkage).
- Continue to optimize our network by introducing improvement plans for under-performing stores.
- Continue to improve the Company's various information systems for greater ease and efficiency in our next wave of growth through acquisitions.
- Continue to sell off non-core assets.

Optimize our supply chain:

- Continue to reduce comparable inventories and generate better turnover rates in our stores and distribution centres.
- Further improve inventory quality by working more closely with our suppliers.
- Continue to optimize our distribution channels and review transportation contracts.
- Grow our Commercial and Professional Market division's distribution capacity.

Accelerate recruitment of independent dealer-owners:

- Accelerate the recruitment of independent dealer-owners and further improve loyalty among our current affiliates.
- Promote expansion projects among current affiliate dealer-owners.

Improve sales and customer loyalty in the RONA network:

- Introduce a revitalization program for existing big-box stores and create an innovative concept for future stores openings.
- Develop new concepts of specialized stores.
- Increase our private brand penetration from 17% to 18%.
- Increase our Commercial and Professional Market division's sales force in order to increase sales to these customers throughout the RONA network
- Diversify the Commercial and Professional Market division's activities into other renovation product categories such as heating, ventilation and air-conditioning (HVAC) products.
- Continue to develop new RONA by Design renovation projects, including Building-by-Design and Decorating-by-Design projects.
- Continue to improve installation sales and promote use of the Project Guide for customers' major renovation projects and take full advantage of the renovation tax credits announced by the federal government and Quebec's government, as well as RONA's own complementary incentive measures.
- Continue to increase the number of its customers who use the AIR MILES® program as well as the RONA Desjardins credit card.

- Continue to market eco-responsible products and develop a range of eco-energy products using the rigorous life cycle analysis approach.
- Market new product categories and launch a repair service for private brand products and garden equipment.

To give the organization renewed vitality and establish a solid basis for the continued pursuit of the 2008–2011 strategic plan, RONA has made some changes to its organizational structure over the last few months. The operations of big-box stores and proximity stores have been combined under a single department. RONA's marketing activities have been consolidated and expanded, and they now focus more directly on innovation and the customer experience. A new vice-presidency was created for supply chain management, and the recruitment and support of independent dealer-owners has come under the direct supervision of the president and CEO. Finally, new talent management and executive succession planning tools will be introduced in 2009.

RONA started off 2009 with an improved PEP program and an optimized organizational structure. The Company will nevertheless remain vigilant throughout the year to adapt its operational activities and capital investments to the economic conditions projected for 2009. Even this early in the year, RONA is already planning to reduce capital spending from the \$196.1 million spent in 2008 to \$150 million in 2009. Of the seven stores currently under construction, three will open in 2009: a Réno-Dépôt expansion in LaSalle, Quebec, a new proximity store in Strathmore, Alberta, under the TOTEM banner, and the reconstruction and relocation of a RONA store after a fire in St-Georges-de-Beauce, Quebec. Four more stores will open in early 2010: three in Ontario and one in Alberta.

Management believes, however, that the current market conditions present significant potential for further consolidation of the Canadian construction/renovation market, especially in terms of recruitment of independent dealer-owners. Management also believes that periods of great economic uncertainty often lead to major changes in consumer behaviour, and this represents an excellent opportunity to develop innovative new store concepts in preparation for our sector's recovery. The Company therefore plans to maintain a solid balance sheet in order to be able to seize growth opportunities that will arise during or toward the end of the recession.

RISK 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 our objectives and, by extension, on the Company's performance. We have also adopted a formal framework to manage strategic risks.

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 lessen 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 a certain extent, 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.

However, RONA enjoys a solid diversification of its activities, geographically and by segment, banner or store format.

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.

As explained, the economic situation has an impact on RONA's results. The depth and duration of the current recession cannot be predicted. However, RONA has a tightly managed balance sheet and a diversified business model, and introduction of the PEP program has improved the Company's operational efficiency. As it has done during past economic downturns, management is taking proactive steps in response to the current economic conditions.

Furthermore, various factors such as the exchange rate, the unemployment rate, interest rates and general credit conditions can all have a negative impact 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

Since acquisitions are the focus of our growth and business model, our information technology structure is 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 frame could prevent us from achieving our expected financial goals.

Reputation

RONA sells a variety of products with 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 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, as an inability to do so could affect our financial situation.

Acquisition / Recruitment / Integration / Development

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

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

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

Legal and regulatory requirements

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

Accounting standards

GAAP are complex, involve numerous assumptions and estimates, and may be subject to "judgment calls" by RONA management. These rules are also subject to change. Amendments to these principles, assumptions and estimates can have repercussions for RONA's financial results.

Availability of financing

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

Limited availability of financing may affect the Company in a number of different ways. A lack of financing may affect 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 its growth objectives, which would negatively affect our financial results.

CHANGES IN ACCOUNTING POLICIES

At the beginning of 2008, 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 – Disclosure and Presentation

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 from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863, *Financial Instruments – Presentation* establishes standards for presentation of financial instruments and non-financial derivatives. These sections complement the principles of recognition, measurement and presentation of financial instruments set out in Section 3855, *Financial Instruments – Recognition and Measurement*, and Section 3865, *Hedges*, and they replace the presentation standards of Section 3861, *Financial Instruments – Disclosure and Presentation*.

Capital disclosures

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

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.

Adoption of these recommendations had no material impact on the Company's results, financial situation or cash flows.

NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

Goodwill and Intangible Assets

In February 2008, the CICA published Section 3064, *Goodwill and Intangible Assets* which replaces Section 3062 of the same title. The section applies to fiscal years beginning on or after October 1, 2008, or first quarter 2009 for the Company. The new section confirms that, upon their initial recognition, intangible assets are to be recognized as such only if they meet the definition of an intangible asset and the recognition criteria. Section 3064 also provides further guidance for the recognition of internally generated intangible assets.

The Company is currently evaluating the impact of the new section on its consolidated financial statements. Based on analyses to date, certain assets included on the Company's balance sheet will no longer meet the requirements of the new section, notably, pre-opening expenses for stores and distribution centres (included in "Other assets"), advertising costs for store openings and costs incurred for the Olympic and Paralympic sponsorship (included in "Prepaid expenses"). In first quarter 2009, the balances in these asset accounts as at December 31, 2007 – that is, at the beginning of first quarter 2008 – will be restated and included in "Retained earnings" and the results of operations of 2008 will also be restated to conform to the 2009 presentation.

As at December 28, 2008, according to analyses completed to date, the impact of the recommendations of the new section on the consolidated financial statements for the first period of application consists of a \$21.8 million reduction in prepaid expenses (\$12.1 million as at December 31, 2007), a \$11.3 million reduction in other assets (\$15.8 million as at December 31, 2007), a \$3.6 million reduction in net earnings and a \$31.5 million reduction in retained earnings.

International Financial Reporting Standards

In February 2008, the Accounting Standards Board of Canada announced that Canadian GAAP for publicly accountable entities will be replaced by IFRS, which will go into effect during the 2011 calendar year. IFRS use a conceptual framework similar to that of Canadian GAAP, but include major differences with respect to recognition, measurement, presentation and disclosure. In the period prior to conversion, the International Accounting Standards Board (IASB) will continue to publish new accounting standards, and as a result, the final impact of IFRS on the Company's consolidated financial statements will be evaluated only when all IFRS applicable on the conversion date are known.

For the Company, conversion to IFRS will be required for financial statements for periods beginning on or after January 1, 2011. Comparative data will have to be restated to comply with IFRS. As a result, the Company has developed a plan to convert its financial statements to IFRS in four phases: Phase 1 – Preliminary Diagnosis, Planning and Definition of the Scope, Phase 2 – Detailed Evaluation, Phase 3 – Definition of the Solution and Phase 4 – Implementation.

The Company has started Phase 2 of its conversion plan, the employee training and the detailed evaluation of the impacts. Changes in accounting policies are probable and likely to have a notable impact on the Company's consolidated financial statements.

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. Management also took into consideration the current unusual economic context in its assessment of significant accounting estimates. The significant estimates are: inventory valuation, volume rebates, long-term assets, goodwill and non-amortizable trademarks, income taxes and employee future benefits.

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.

Long-term assets

Long-term 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-term 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 the long-term asset over its fair value.

Goodwill and non-amortizable trademarks

Goodwill is the excess of the cost of acquired enterprises over the net 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.

Non-amortizable trademarks 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 book value of the asset to its fair value. The fair value is based on discounted cash flows.

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. Future income tax assets are recognized only if management believes it is more likely than not that they will be realized.

Employee future benefits

The cost of retirement plans and accrued pension benefit obligations are determined by independent actuaries using the projected benefit method prorated on services. This method is based on management's best economic and demographic estimates for expected plan investment performance, salary escalation and retirement ages of employees. The use of different assumptions could generate different accounting values for accrued benefits, affecting the cost of the defined benefit plans.

DISCLOSING FINANCIAL INFORMATION

In 2008, management finalized its work on implementing 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), and for the technology aspect, we used the IT Control Objectives for Sarbanes-Oxley from the IT Governance Institute.

This year's efforts focused on the following issues: maintaining and updating control documentation, and rationalizing the control portfolio using a top-down, risk-based approach, which allowed us to optimize our efforts when evaluating the efficiency of the controls.

DISCLOSURE CONTROLS AND PROCEDURES

RONA has evaluated its disclosure controls and procedures in accordance with the guidelines of MI 52-109.

On December 28, 2008, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer concluded that our disclosure controls and procedures are properly designed and effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

RONA evaluated the design of internal control over financial reporting as of December 28, 2008, 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 management to determine that, during the year ended December 28, 2008, 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 STATEMENTS

This MD&A includes "forward-looking statements" that involve risks and uncertainties. All statements other than statements of historical facts included in this MD&A, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the 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 write-downs or other charges announced or occurring after forward-looking statements are made.

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

The forward-looking statements in this MD&A reflect the Company's expectations as at February 19, 2009, 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, 2009. 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 the SEDAR website 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 28, 2008 and December 30, 2007

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RONA inc.

Consolidated Earnings

Years ended December 28, 2008 and December 30, 2007

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

	Fourth Quarter		Year-to-date	
	2008	2007	2008	2007
Sales	\$ 1,124,612	\$ 1,087,035	\$ 4,891,122	\$ 4,785,106
Earnings before the following items (Note 5)	70,914	75,940	377,101	400,207
Interest on long-term debt	5,694	6,599	28,106	28,270
Interest on bank loans	590	894	2,134	3,329
Depreciation and amortization (Notes 11, 13 and 14)	26,192	23,397	108,091	90,901
	32,476	30,890	138,331	122,500
Earnings before income taxes and non-controlling interest	38,438	45,050	238,770	277,707
Income taxes (Note 6)	11,838	13,925	73,541	88,130
Earnings before non-controlling interest	26,600	31,125	165,229	189,577
Non-controlling interest	903	636	5,030	4,488
Net earnings and comprehensive income	\$ 25,697	\$ 30,489	\$ 160,199	\$ 185,089
Net earnings per share (Note 25)				
Basic	\$ 0.22	\$ 0.26	\$ 1.39	\$ 1.61
Diluted	\$ 0.22	\$ 0.26	\$ 1.37	\$ 1.59

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

RONA inc.

Consolidated Retained Earnings

Consolidated Contributed Surplus

Years ended December 28, 2008 and December 30, 2007

(Unaudited, in thousands of dollars)

	2008	2007
Consolidated Retained Earnings		
Balance, beginning of year, as previously reported	\$ 892,967	\$ 709,467
Financial instruments - recognition and measurement (Note 3)	—	(1,589)
Restated balance, beginning of year	892,967	707,878
Net earnings	160,199	185,089
Balance, end of year	\$ 1,053,166	\$ 892,967
Consolidated Contributed Surplus		
Balance, beginning of year	\$ 11,045	\$ 9,182
Compensation cost relating to stock option plans	1,518	2,082
Exercise of stock options	—	(219)
Balance, end of year	\$ 12,563	\$ 11,045

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

RONA inc.

Consolidated Cash Flows

Years ended December 28, 2008 and December 30, 2007

(Unaudited, in thousands of dollars)

	Fourth Quarter		Year-to-date	
	2008	2007	2008	2007
Operating activities				
Net earnings	\$ 25,697	\$ 30,489	\$ 160,199	\$ 185,089
Non-cash items				
Depreciation and amortization	26,192	23,397	108,091	90,901
Derivative financial instruments	1,011	819	1,192	(2,483)
Future income taxes	(1,696)	2,032	(1,733)	1,894
Net loss (gain) on disposal of assets	(926)	152	(2,796)	1,041
Compensation cost relating to stock option plans	380	537	1,518	2,082
Non-controlling interest	903	636	5,030	4,488
Other items	1,259	731	3,465	3,158
	52,820	58,793	274,966	286,170
Changes in working capital items (Note 7)	36,896	69,294	75,336	(9,361)
Cash flows from operating activities	89,716	128,087	350,302	276,809
Investing activities				
Business acquisitions (Note 8)	(765)	(53,162)	(4,824)	(228,502)
Advances to joint ventures and other advances	(18)	(7,666)	8,139	(2,795)
Other investments	(715)	—	(3,155)	(588)
Fixed assets	(66,463)	(73,175)	(196,145)	(233,662)
Other assets	(7,085)	(3,489)	(13,380)	(9,414)
Disposal of fixed assets	2,776	9,339	11,686	10,375
Disposal of investments	1,909	556	10,618	6,653
Cash flows from investing activities	(70,361)	(127,597)	(187,061)	(457,933)
Financing activities				
Bank loans and revolving credit	(25,354)	16,488	(131,518)	156,128
Other long-term debt	6,583	807	8,560	1,740
Repayment of other long-term debt and redemption of preferred shares	(15,904)	(17,601)	(33,946)	(36,472)
Issue of common shares	1,194	1,160	5,592	5,318
Issue of equity securities to non controlling interest	—	—	—	750
Cash dividends paid by a subsidiary to non-controlling interest	(2,450)	(1,960)	(2,450)	(1,960)
Cash flows from financing activities	(35,931)	(1,106)	(153,762)	125,504
Net increase (decrease) in cash	(16,576)	(616)	9,479	(55,620)
Cash, beginning of year	28,921	3,482	2,866	58,486
Cash, end of year	\$ 12,345	\$ 2,866	\$ 12,345	\$ 2,866
Supplementary information				
Interest paid	\$ 1,541	\$ 2,933	\$ 33,165	\$ 28,555
Income taxes paid	\$ 8,255	\$ 23,782	\$ 75,508	\$ 100,952

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

RONA inc.

Consolidated Balance Sheets

December 28, 2008 and December 30, 2007

(Unaudited, in thousands of dollars)

	2008	2007
Assets		
Current assets		
Cash	\$ 12,345	\$ 2,866
Accounts receivable (Note 9)	234,027	237,043
Income taxes receivable	6,046	5,684
Inventory (Note 4)	763,239	856,326
Prepaid expenses	33,104	24,249
Derivative financial instruments (Note 21)	1,089	1,168
Future income taxes (Note 6)	13,800	12,279
	1,063,650	1,139,615
Investments (Note 10)	10,186	11,901
Fixed assets (Note 11)	875,634	816,919
Fixed assets held for sale (Note 12)	34,870	–
Goodwill	454,889	454,882
Trademarks (Note 13)	3,797	4,145
Other assets (Note 14)	38,466	32,349
Future income taxes (Note 6)	24,681	22,635
	\$ 2,506,173	\$ 2,482,446
Liabilities		
Current liabilities		
Bank loans (Note 15)	\$ 8,468	\$ 19,574
Accounts payable and accrued liabilities	422,318	421,446
Derivative financial instruments (Note 21)	2,180	1,067
Future income taxes (Note 6)	4,854	3,650
Instalments on long-term debt (Note 16)	15,696	34,239
	453,516	479,976
Long-term debt (Note 16)	478,475	602,537
Other long-term liabilities (Note 17)	28,571	24,526
Future income taxes (Note 6)	23,998	23,781
Non-controlling interest	29,098	26,420
	1,013,658	1,157,240
Shareholders' equity		
Capital stock (Note 19)	426,786	421,194
Retained earnings	1,053,166	892,967
Contributed surplus	12,563	11,045
	1,492,515	1,325,206
	\$ 2,506,173	\$ 2,482,446

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

RONA inc.
Notes to Consolidated Financial Statements
December 28, 2008 and December 30, 2007
(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

At the beginning of 2008 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 – Disclosures and presentation

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. Section 3863, *Financial Instruments – Presentation* establishes standards for presentation of financial instruments and non-financial derivatives. These Sections complement the principles of recognition, measurement and presentation of financial instruments of Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3865, *Hedges* and replace 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.

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.

Adoption of these recommendations had no material impact on the Company's results, financial position or cash flows.

RONA inc.
Notes to Consolidated Financial Statements
December 28, 2008 and December 30, 2007
(Unaudited, in thousands of dollars, except amounts per share)

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. Significant estimates in these consolidated financial statements relate to the valuation of accounts receivable, inventory, long-term assets, goodwill, store closing costs, income taxes as well as certain economic and actuarial assumptions used in determining the cost of pension plans and accrued benefit obligations. 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.

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 weighted 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. Certain exceptions apply where the cash consideration received is either a reimbursement of incremental selling costs incurred by the reseller or a payment for goods or services delivered to the vendor, in which case the rebate is reflected as a reduction of operating expenses.

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.

	Rates
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%

RONA inc.

Notes to Consolidated Financial Statements

December 28, 2008 and December 30, 2007

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

3. Accounting policies (continued)

Impairment of long-term 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-term 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 the long-term asset over its fair value.

Trademarks having finite lives are amortized on a straight-line basis over periods ranging from five to seven years.

Goodwill and non-amortizable 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.

Non-amortizable trademarks 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 carrying value of the asset to its fair value. The fair value is based on 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.

Dealer recruitment costs are amortized on a straight-line basis over a period of five years.

3. Accounting policies (continued)

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.

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.

Financial instruments

Financial assets and liabilities are initially measured at fair value and their subsequent measurement depends on their classification as described below:

- 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.
- 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.

RONA inc.

Notes to Consolidated Financial Statements

December 28, 2008 and December 30, 2007

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

3. Accounting policies (continued)

Financial instruments (continued)

- Bank loans, accounts payable and accrued liabilities and the revolving credit 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.
- 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. The adoption of this CICA Handbook recommendation in 2007 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.
- 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. The adoption of this CICA Handbook recommendation in 2007 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 year ended December 30, 2007, this change resulted in an increase in earnings before interest, depreciation and amortization, income taxes and non controlling interest of \$4,219, an increase in net earnings of \$2,868 and an increase of net earnings per share and diluted net earnings per share of \$0.03.

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3. Accounting policies (continued)

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 plans is 12 years (16 years at December 30, 2007);
- 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.

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.

RONA inc.

Notes to Consolidated Financial Statements

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3. Accounting policies (continued)

Fiscal year

The Company's fiscal year ends on the last Sunday of December. The fiscal years ended December 28, 2008 and December 30, 2007 include 52 weeks of operations.

Comparative figures

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

4. Inventory

For the thirteen and fifty-two-week periods ended December 28, 2008, \$815,797 and \$3,571,962 of inventory was expensed in the consolidated results (\$803,708 and \$3,542,605 as at December 30, 2007). These amounts include an inventory write-down charge of \$7,840 and \$46,752 (\$14,296 and \$48,883 as at December 30, 2007).

5. Store closing costs

Exit and disposal costs and write-down of assets

In April 2008, management approved a detailed plan to close four of its stores included in the corporate and franchised stores segment. Three of these stores were closed in 2008 and one will close in 2009. During the thirteen and fifty-two-week period ended December 28, 2008, the Company recognized the following costs:

	Fourth Quarter		Year-to-date	
	2008	2007	2008	2007
Lease obligations	\$ –	\$ –	\$ 4,231	\$ –
Inventory write-down	100	–	2,214	–
Termination benefits	13	–	277	–
Total recorded in earnings before the following items	113	–	6,722	–
Fixed assets write-down	–	–	2,857	–
Total costs	\$ 113	\$ –	\$ 9,579	\$ –

Additional estimated costs of \$2,980 relating to store closures, notably lease obligations, will be recorded by the Company when the criteria for recognition have been met.

RONA inc.

Notes to Consolidated Financial Statements

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

5. Store closing costs (continued)

The liability for exit and disposal costs and write-down of assets is as follows:

	2008	2007
Balance, beginning of year	\$ —	\$ —
Costs recognized:		
Lease obligations	4,231	—
Termination benefits	277	—
Less: cash payments	(933)	—
Balance, end of year	\$ 3,575	\$ —

Other closing costs

During the thirteen and fifty-two week periods ended December 28, 2008, in addition to the exit and disposal costs and write-down of assets, the Company recorded operating costs, including interest and depreciation, for the liquidation of the assets of these stores in the amount of \$1,101 and \$5,202. The Company estimates that additional costs of \$1,255 will be incurred in the next quarter to complete the liquidation of these stores' assets.

6. Income taxes

	2008	2007
Current	\$ 75,274	\$ 86,236
Future	(1,733)	1,894
	\$ 73,541	\$ 88,130

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:

	2008	2007
Federal statutory income tax rate	19.5 %	22.1 %
Statutory rate of various provinces	11.2	9.8
Combined statutory income tax rate	30.7	31.9
Non-deductible costs	0.3	0.4
Other	(0.2)	(0.6)
Effective income tax rate	30.8 %	31.7 %

RONA inc.

Notes to Consolidated Financial Statements

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6. Income taxes (continued)

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

	2008	2007
Future income tax assets		
Current		
Non-capital loss carry-forwards	\$ 1,325	\$ 2,024
Direct costs related to business acquisitions	700	674
Provisions not deducted and other	11,775	9,581
	<u>\$ 13,800</u>	<u>\$ 12,279</u>
Long-term		
Non-capital loss carry-forwards	\$ 7,602	\$ 5,754
Fixed assets and pre-opening expenses	7,095	7,152
Deferred gain on sale and leaseback transaction	3,645	4,137
Goodwill	1,101	1,101
Deferred revenue and other	5,238	4,491
	<u>\$ 24,681</u>	<u>\$ 22,635</u>
Future income tax liabilities		
Current		
Incentive payments received	\$ 2,691	\$ 2,065
Other	2,163	1,585
	<u>\$ 4,854</u>	<u>\$ 3,650</u>
Long-term		
Fixed assets and pre-opening expenses	\$ 13,392	\$ 15,822
Goodwill	5,842	3,544
Pension plans	2,395	2,079
Other	2,369	2,336
	<u>\$ 23,998</u>	<u>\$ 22,781</u>

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7. Cash flow information

The changes in working capital items are detailed as follows:

	2008	2007
Accounts receivable	\$ (6,518)	\$ 11,801
Inventory	94,455	(18,451)
Prepaid expenses	(8,916)	(3,740)
Accounts payable and accrued liabilities	(4,495)	13,700
Income taxes (receivable) payable	810	(12,671)
	<u>\$ 75,336</u>	<u>\$ (9,361)</u>

8. Business acquisitions

During 2008, the Company acquired two companies (seven companies in 2007), operating in the corporate and franchised stores segment, by way of asset purchases (share and asset purchases in 2007). Taking direct acquisition costs into account, these acquisitions were for a total consideration of \$5,622 (\$253,704 in 2007). 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:

	2008	2007
Accounts receivable	\$ 2,697	\$ 42,147
Inventory	2,997	50,871
Other current assets	66	805
Fixed assets	4,658	40,403
Goodwill	2,725	138,817
Trademarks	—	2,981
Other assets	—	118
Future income taxes	—	1,240
Current liabilities	(4,413)	(18,636)
Long-term debt	(3,108)	(5,042)
	<u>5,622</u>	<u>253,704</u>
Less: Accrued direct acquisition costs	(48)	(1,044)
Balance of purchase price	(750)	(24,158)
Cash consideration paid	<u>\$ 4,824</u>	<u>\$ 228,502</u>

During the year, based on additional information obtained concerning the purchase price allocation of acquisitions of the fourth quarter of 2007, the Company reduced goodwill by \$2,719 reduced other net assets acquired by \$951 and reduced Balance of purchase price, accordingly.

The Company expects that the portion of goodwill deductible for tax purposes will be reduced by \$1,206.

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9. Accounts receivable

	2008	2007
Trade accounts		
Affiliated and franchised stores	\$ 63,361	\$ 49,451
Joint ventures	6,443	8,176
Other (retail customers)	155,689	153,502
Advances to joint ventures, varying from prime to prime plus 3%	—	8,139
Other accounts receivable	6,806	13,492
Portion of investments receivable within one year	1,728	4,283
	<u>\$ 234,027</u>	<u>\$ 237,043</u>

10. Investments

	2008	2007
Joint ventures, at cost		
Preferred shares, dividend rate of 6%	\$ —	\$ 1,071
Mortgages, weighted average rate of 9.5% in 2007	—	693
Companies subject to significant influence		
Shares, at equity value	3,342	2,387
Preferred shares, at cost, redeemable over ten years, maturing in 2011	240	320
Advances and loans, at cost		
Mortgages and term notes, weighted average rate of 5.9% (5.7% in 2007), maturing at various dates until 2016	7,667	11,071
Other	665	642
	<u>11,914</u>	<u>16,184</u>
Portion receivable within one year	1,728	4,283
	<u>\$ 10,186</u>	<u>\$ 11,901</u>

The consolidated statement of earnings includes dividend income of \$29 (\$82 in 2007) and interest income of \$3,466 (\$2,885 in 2007).

RONA inc.

Notes to Consolidated Financial Statements

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

11. Fixed assets

	2008		
	Cost	Accumulated depreciation	Net
Land and parking lots	\$ 170,279	\$ 16,359	\$ 153,920
Buildings	259,219	45,919	213,300
Leasehold improvements	187,360	85,146	102,214
Furniture and equipment	333,593	181,992	151,601
Computer hardware and software	213,563	127,057	86,506
Projects in process ^(a)	62,819	—	62,819
Land for future development	91,707	—	91,707
Assets under capital leases ^(b)			
Furniture and equipment	15,501	6,616	8,885
Computer hardware and software	21,252	16,570	4,682
	<u>\$ 1,355,293</u>	<u>\$ 479,659</u>	<u>\$ 875,634</u>

	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
	<u>\$ 1,219,391</u>	<u>\$ 402,472</u>	<u>\$ 816,919</u>

RONA inc.

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11. Fixed assets (continued)

Depreciation of fixed assets amounts to \$97,417 (\$81,506 in 2007).

- (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 \$2,743 (\$6,017 in 2007) of assets under capital leases.

12. Fixed assets held for sale

The Company has decided to dispose of land and buildings in the corporate and franchised store segment which are no longer used in operations, and accordingly, established a detailed plan to sell. The Company expects to dispose of these assets within the next twelve-month period.

13. Trademarks

	2008	2007
Cost	\$ 4,495	\$ 4,495
Accumulated amortization	698	350
Unamortized cost	\$ 3,797	\$ 4,145

Amortization of trademarks amounts to \$348 (\$216 in 2007). Non-amortizable trademarks amounting to \$2,321 are included in the cost.

14. Other assets

	2008	2007
At unamortized cost		
Pre-opening expenses	\$ 11,269	\$ 15,753
Financing costs	3,657	3,122
Costs related to sale and leaseback agreements	2,879	2,653
Dealer recruitment costs	10,765	3,672
Accrued benefit asset (Note 22)	9,896	7,149
	\$ 38,466	\$ 32,349

Amortization of other assets amounts to \$10,326 (\$9,179 in 2007).

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15. 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 \$650,000. 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.

Credit facilities can also be used to issue letters of guarantee and credit letters for imports. At December 28, 2008, the letters of guarantee issued amount to \$2,114. For 2008, the weighted average interest rate on the revolving credit is 4.5% (5.5% in 2007).

The Company is required to meet certain financial ratios. At December 28, 2008 and 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 28, 2008, the amount used is \$31,258 (\$29,493 in 2007).

b) Other subsidiaries

Bank loans are secured by an assignment of certain assets in the amount of \$36,815 (\$120,480 in 2007). These bank loans bear interest at rates varying from prime rate to prime rate plus 0.25% and are renewable annually. At December 28, 2008 the interest rates varied from 3.5% to 3.75% (6% to 7% in 2007). The amount authorized for these credit facilities is \$21,000 (\$58,250 in 2007) and the amount used is \$7,340 (\$17,142 in 2007).

c) Joint ventures

Bank loans are secured by an assignment of certain assets. The Company's share of these assets amounts to \$10,672 (\$12,408 in 2007). These bank loans bear interest at rates varying from prime rate to prime rate plus 1% and are renewable annually. At December 28, 2008, the interest rates varied from 3.5% to 4.5% (6% to 7% in 2007). The amount authorized for these credit facilities is \$17,200 (\$18,700 in 2007) and the amount used is \$1,128 (\$2,432 in 2007).

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16. Long-term debt

	2008	2007
Revolving credit, weighted average rate of 4.5 (5.5% in 2007) (Note 15)	\$ 39,789	\$ 160,200
Debentures, unsecured, rate of 5.4%, due in 2016 ^(a)	396,182	395,821
Mortgage loans, secured by assets having a depreciated cost of \$58,557 (\$43,069 in 2007), rates varying from 1.68% to 7.95% (5.1% to 10.0% in 2007) maturing on various dates until 2017	37,524	32,512
Obligations under capital leases, rates varying from 0% to 12.4 % (2.9% to 12.4% in 2007), maturing on various dates until 2016	11,058	15,317
Balance of purchase price, varying from prime less 1% to 5%, payable on various dates until 2010	5,618	27,926
Shares issued and fully paid		
4,000,000 Class D preferred shares (5,000,000 shares in 2007) ^(b)	4,000	5,000
	494,171	636,779
Instalments due within one year	15,696	34,239
	<u>\$ 478,475</u>	<u>\$ 602,537</u>

(a) Effective rate of 5.5%

(b) During the year, the Company redeemed 1,000,000 shares (1,000,000 shares in 2007) for a cash consideration of \$1,000 (\$1,000 in 2007). These shares are redeemable over a period of ten years.

Dividends affecting earnings amount to \$200 (\$240 in 2007).

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

	Obligations under capital leases	Long-term loans and shares
2009	5,016	10,962
2010	3,689	6,300
2011	1,872	5,884
2012	653	10,397
2013	166	45,369
2014 and subsequent years	71	408,263
Total minimum lease payments	<u>11,467</u>	
Financial expenses included in minimum lease payments	409	
	<u>11,058</u>	

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17. Other long-term liabilities

	2008	2007
Deferred gain on sale and leaseback transaction	\$ 12,470	\$ 13,140
Deferred lease obligations	16,101	11,386
	<u>\$ 28,571</u>	<u>\$ 24,526</u>

18. Guarantees, commitments and contingencies

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 \$1,855. The terms of these loans extend until 2012 and the net carrying amount of the assets held as security, which mainly include land and buildings, is \$5,847.

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 \$66,894. 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.

Commitments

The Company has entered into lease agreements expiring until 2018 which call for lease payments of \$74,366 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 2029 for corporate store space for minimum lease payments of \$1,053,451.

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 \$92,764 for the rental of premises and land on which the Company erected a building. In consideration thereof, the Company has signed subleasing agreements totalling \$92,012.

RONA inc.

Notes to Consolidated Financial Statements

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18. Guarantees, commitments and contingencies (continued)

Commitments (continued)

The minimum lease payments (minimum amounts receivable) under lease agreements for the next five years are \$120,466 (\$10,033) in 2009, \$117,025 (\$10,033) in 2010, \$111,956 (\$10,077) in 2011, \$105,061 (\$10,037) in 2012 and \$96,640 (\$9,787) in 2013.

In 2005, the Company entered into an eight-year partnership agreement for Olympic and Paralympic sponsorship valued at \$60,000. Moreover, in 2006 the Company committed an additional amount of \$7,000 to financial support programs for athletes. At December 28, 2008, the balance due on these agreements is \$28,508, i.e. \$12,758 in 2009, \$11,150 in 2010, \$2,400 in 2011 and \$2,200 in 2012.

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.

19. 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

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 16)

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19. 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 28, 2008	
	Number of shares	Amount
Balance, beginning of year	115,412,766	\$ 418,246
Issuance in exchange for common share subscription deposits	197,854	3,349
Issuance under stock option plans	89,000	309
Issuance in exchange for cash	120,079	1,573
Balance before elimination of reciprocal shareholdings	115,819,699	423,477
Elimination of reciprocal shareholdings	(72,396)	(435)
Balance, end of year	115,747,303	423,042
Deposits on common share subscriptions, net of eliminations of joint ventures ^(a)		3,744
		\$ 426,786

	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

(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.

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19. 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. As at December 28, 2008 the 2,920,000 options granted have an exercise price of \$3.47 and of this number, 1,538,500 options (1,449,500 options as at December 30, 2007) 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 28, 2008 and December 30, 2007.

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, approved by the shareholders at the annual shareholders' meeting on May 8, 2007, establish that this plan is no longer applicable to the designated directors of the Company and 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, February 29, 2008 and December 9, 2008, the Board approved the option grants with vesting over a four-year period following the anniversary date of the grants at 25% per year.

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19. Capital stock (continued)

As at December 28, 2008, the 1,959,052 options (1,700,852 options as at December 30, 2007) granted have exercise prices ranging from \$10.86 to \$26.87 (\$14.29 to \$26.87 as at December 30, 2007) and of this number, 85,100 options (85,100 options as at December 30, 2007) have been exercised and 274,450 options (163,700 options as at December 30, 2007) have been forfeited.

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:

	December 28, 2008	December 30, 2007
Weighted average fair value per option granted	\$4.39	\$8.50
Risk-free interest rate	3.19 %	3.90 %
Expected volatility in stock price	26 %	26 %
Expected annual dividend	0 %	0 %
Expected life (years)	6	6

Compensation costs expensed with respect to this plan were \$380 and \$1,518 for the thirteen and fifty-two-week periods ended December 28, 2008 (\$537 and \$2,082 as at December 30, 2007).

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:

	Options	December 28, 2008 Weighted average exercise price
Balance, beginning of year	2,922,552	\$ 11.31
Granted	258,200	13.99
Exercised	(89,000)	3.47
Forfeited	(110,750)	20.07
Balance, end of year	2,981,002	11.46
Options exercisable, end of year	1,965,569	\$ 7.22

	Options	December 30, 2007 Weighted average exercise price
Balance, beginning of year	3,162,479	\$ 10.16
Granted	196,000	23.58
Exercised	(339,327)	4.88
Forfeited	(96,600)	20.94
Balance, end of year	2,922,552	11.31
Options exercisable, end of year	2,011,194	\$ 6.70

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19. Capital stock (continued)

The following table summarizes information relating to stock options outstanding as at December 28, 2008:

Exercise price	Expiration date	Options outstanding	Options exercisable
\$ 3.47	December 31, 2012	1,381,500	1,381,500
\$ 10.86	December 9, 2018	15,000	—
\$ 14.18	February 29, 2018	223,300	—
\$ 14.29	December 16, 2013	432,550	432,550
\$ 20.27	December 22, 2014	384,250	103,750
\$ 21.21	February 24, 2016	340,500	—
\$ 21.78	September 1, 2016	17,576	4,394
\$ 23.58	March 8, 2017	163,250	43,375
\$ 23.73	April 5, 2015	5,500	—
\$ 26.87	February 24, 2016	17,576	—
		<u>2,981,002</u>	<u>1,965,569</u>

20. Capital disclosures

The Company maintains a level of capital that is sufficient to meet several objectives, including an acceptable debt-to-capital ratio to provide access to adequate funding sources to support current operations, pursue its internal growth strategy and undertake targeted acquisitions.

Total debt includes bank loans and long-term debt. The Company's capital includes total debt and equity.

As at December 28, 2008, the Company's debt-to-capital ratio is 25.2% (33.1% as at December 30, 2007).

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

The Company's credit facilities include certain covenants affecting, among others, the leverage ratio and the interest coverage ratios. These ratios are submitted to the Board of Directors each quarter and, as at December 28, 2008, the Company is in compliance with the ratios. Other than covenants related to its credit facilities, the Company is not subject to any other externally imposed capital requirements.

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21. Financial instruments

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

	December 28, 2008		December 30, 2007	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets held for trading				
Cash	\$ 12,345	\$ 12,345	\$ 2,866	\$ 2,866
Derivative financial instruments	1,089	1,089	1,168	1,168
Loans and receivables				
Accounts receivable	234,027	234,027	237,043	237,043
Redeemable preferred shares	—	—	1,071	1,071
Financial liabilities				
Bank loans	8,468	(a)	19,574	19,574
Accounts payable and accrued liabilities	422,318	422,318	421,446	421,446
Revolving credit	39,789	(a)	160,200	160,200
Debentures	396,182	302,640	395,821	372,145
Mortgage loans and balance of purchase price	43,142	(a)	60,438	60,438
Preferred shares	4,000	4,000	5,000	5,000
Financial liabilities held for trading				
Derivative financial instruments	2,180	2,180	1,067	1,067

(a) See methods and assumptions on the following page.

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21. Financial instruments (continued)

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 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;
- In prior years there was little difference between the fair values and carrying amounts of bank loans and long-term debt bearing interest at rates that varied in accordance with market rates. However, due to the state of the financial markets, notably the current credit situation, the fair value of long-term debt could be lower than its carrying amount. The Company is unable to identify similar debt in the market, including current transactions, having substantially the same terms and conditions to permit an adequate measurement of the fair value of the debt. Management is of the opinion that the time and costs involved greatly exceeds the benefit of disclosing fair value and consequently fair value has not been determined.
- The fair value 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:

	Fourth Quarter		Year-to-date	
	2008	2007	2008	2007
Interest on accounts receivable	\$ (330)	\$ (606)	\$ (2,603)	\$ (2,978)
Interest on long-term loans and advances	(662)	(727)	(3,466)	(2,885)
Dividends on redeemable preferred shares	—	(19)	(29)	(82)
Interest on cash and bank loans	590	894	2,134	3,329
Interest on long-term debt	5,694	6,599	28,106	28,270
Loss (gain) on fair value of derivative financial instruments	(824)	(91)	846	(3,738)

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21. Financial instruments (continued)

Credit risk

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

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

As at December 28, 2008, the aging of accounts receivable is as follows:

Current	\$ 168,836
Past due 0 - 30 days	36,342
Past due 31-120 days	20,076
Past due over 121 days	12,549
Trade accounts receivable	<u>237,803</u>
Less: allowance for doubtful accounts	<u>12,310</u>
	<u>\$ 225,493</u>

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

Balance as at December 30, 2007	\$ 10,181
Doubtful accounts expense	3,384
Write-offs and recoveries	<u>(1,255)</u>
Balance as at December 28, 2008	<u>\$ 12,310</u>

As at December 28, 2008 the maximum exposure to credit risk is \$247,461 (\$242,148 as at December 30, 2007) which represents the carrying amount of financial instruments classified as assets.

Liquidity risk

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

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21. Financial instruments (continued)

The following table presents the financial liability instalments payable when contractually due, excluding future interest payments but including accrued interest as at December 28, 2008:

	Total	Less than 1 year	1 - 2 years	3 - 4 years	5 years and more
Revolving credit	\$ 39,789	\$ –	\$ –	\$ 39,789	\$ –
Debentures	400,000	–	–	–	400,000
Mortgage loans and balance of purchase price	43,386	9,962	10,184	14,977	8,263
Obligations under capital leases	11,467	5,016	5,561	819	71
Preferred shares	4,000	1,000	2,000	1,000	–
Bank loans	8,468	8,468	–	–	–
Accounts payable and accrued liabilities	422,318	422,318	–	–	–
Derivative financial instruments	2,180	2,180	–	–	–
Total	\$ 931,608	\$ 448,944	\$ 17,745	\$ 56,585	\$ 408,334

Exchange risk

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

As at December 28, 2008, the par value of forward exchange contracts is US \$54,400. The average rate of these contracts is 1.1909 and they expire on various dates until April 2009.

On December 28, 2008, a 1% increase or decrease in the exchange rate of the Canadian dollar compared to the U.S. dollar, assuming that all other variables are constant, would have resulted in a \$144 decrease or increase in the Company's net earnings for the thirteen and fifty-two-week periods ended December 28, 2008.

21. Financial instruments (continued)

Interest rate risk

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

On December 28, 2008, a 25-basis-point increase or decrease in interest rates, assuming that all other variables are constant, would have resulted in a \$17 and \$229 decrease or increase in the Company's net earnings for the thirteen and fifty-two-week periods ended December 28, 2008.

22. Employee future benefits

At December 28, 2008, the Company has nine defined contribution pension plans and four defined benefit pension plans.

The total expense is \$9,326 (\$8,818 in 2007) for defined contribution pension plans.

Total cash payments for employee future benefits for 2008, consisting of cash contributed by the Company to its defined benefit and defined contribution pension plans, were \$12,218 (\$12,528 in 2007).

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 was valued as at December 31, 2006 and the others were valued as at December 31, 2007. The next actuarial valuations for funding purposes will be as at December 31, 2009 and December 31, 2010, respectively.

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22. Employee future benefits (continued)

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

	2008	2007
Accrued benefit obligation		
Balance, beginning of year	\$ 40,736	\$ 43,785
Current service cost	499	525
Employee contributions	227	227
Interest cost	2,246	2,230
Benefits paid	(1,842)	(2,915)
Actuarial gain	(9,321)	(2,105)
Settlement	(218)	(1,011)
Balance, end of year	32,327	\$ 40,736
Plan assets		
Fair value, beginning of year	\$ 38,702	\$ 39,264
Actual return	(5,670)	(544)
Employer contributions	4,016	3,710
Employee contributions	227	227
Benefits paid	(1,842)	(2,915)
Settlement	(264)	(1,040)
Fair value, end of year	\$ 35,169	\$ 38,702
Funded status – surplus (deficit)	\$ 2,842	\$ (2,034)
Unamortized past service cost	8	22
Unamortized net actuarial loss	7,023	9,034
Unamortized transitional obligation	45	87
Valuation allowance	(29)	(139)
Accrued benefit asset	\$ 9,889	\$ 6,970
Accrued benefit asset included in other assets (Note 14)	\$ 9,896	\$ 7,149
Accrued benefit liability included in accounts payable and accrued liabilities	\$ 7	\$ 179
Allocation of plan assets		
Equity securities	52 %	58 %
Debt securities	48 %	42 %
Total	100 %	100 %

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22. Employee future benefits (continued)

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

	2008	2007
Current service cost	\$ 499	\$ 525
Interest cost	2,246	2,230
Actual return on plan assets	5,670	544
Actuarial gain	(9,321)	(2,105)
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefits costs	(906)	1,194
Adjustments to recognize the long-term nature of employee future benefits costs:		
Difference between expected return and actual return on plan assets	(8,396)	(3,341)
Difference between actuarial loss recognized and actual actuarial (gain) loss on accrued benefit obligation	10,393	2,733
Gain on settlement	60	(2)
Amortization of past service costs	14	14
Amortization of transitional obligation	42	42
	1,207	640
Valuation allowance relating to the accrued benefit asset	(110)	139
Defined benefit pension costs recognized	\$ 1,097	\$ 779

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

	2008	2007
Accrued benefit obligation as at December 31:		
Discount rate	7.5%	5.5%
Rate of compensation increase	3.5%	3.8%
Benefit costs for the years ended December 31 :		
Discount rate	5.5%	5.2%
Expected rate of return on plan assets	7.0%	7.0%
Rate of compensation increase	3.4%	3.8%

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23. 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:

	2008	2007
Current assets	\$ 11,728	\$ 14,459
Long-term assets	14,496	19,177
Current liabilities	6,854	16,250
Long-term liabilities	8,795	5,719
Sales	56,423	57,599
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest	4,793	2,746
Net earnings	1,823	749
Cash flows from operating activities	(3,847)	6,919
Cash flows from investing activities	4,808	(9,411)
Cash flows from financing activities	703	2,841

The Company's sales include sales to joint ventures at fair value in the amount of \$92,586 (\$91,456 in 2007).

The Company's share in the commitments of these joint ventures amounts to \$117 (\$327 in 2007).

24. 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.

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24. Segmented information (continued)

	Fourth Quarter		Year-to-date	
	2008	2007	2008	2007
Segment sales ^(a)				
Corporate and franchised stores	\$ 866,837	\$ 863,443	\$ 3,741,748	\$ 3,688,966
Distribution	513,555	496,836	2,357,209	2,327,302
Total	1,380,392	1,360,279	6,098,957	6,016,268
Intersegment sales and royalties ^(a)				
Corporate and franchised stores	—	—	—	—
Distribution	(255,780)	(273,244)	(1,207,835)	(1,231,162)
Total	(255,780)	(273,244)	(1,207,835)	(1,231,162)
Sales ^(a)				
Corporate and franchised stores	866,837	863,443	3,741,748	3,688,966
Distribution	257,775	223,592	1,149,374	1,096,140
Total	1,124,612	1,087,035	4,891,122	4,785,106
Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest ^(a)				
Corporate and franchised stores	83,256	89,021	416,940	432,678
Distribution	19,866	20,237	99,141	97,677
Total	103,122	109,258	516,081	530,355
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest ^(a)				
Corporate and franchised stores	55,949	61,004	299,998	324,305
Distribution	14,965	14,936	77,103	75,902
Total	70,914	75,940	377,101	400,207
Acquisition of fixed assets				
Corporate and franchised stores	49,648	87,682	159,508	242,297
Distribution	17,392	13,632	41,832	28,857
Total	67,040	101,314	201,340	271,154
Goodwill				
Corporate and franchised stores	(1,456)	16,512	7	138,324
Distribution	—	—	—	—
Total	(1,456)	16,512	7	138,324
Total assets				
Corporate and franchised stores			2,114,290	2,129,570
Distribution			391,883	352,876
Total			\$ 2,506,173	\$ 2,482,446

(a) During the first quarter of 2008, the Company reviewed its segmented information analysis method and, as a result, modified the presentation of such information between segments. The 2007 comparable period was adjusted accordingly.

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25. Earnings per share

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

	Fourth Quarter		Year-to-date	
	2008	2007	2008	2007
Net earnings	\$ 25,697	\$ 30,489	\$ 160,199	\$ 185,089
Number of shares (in thousands)				
Weighted average number of shares used to compute basic net earnings per share	115,746.4	115,346.2	115,643.6	115,289.2
Effect of dilutive stock options ^(a)	965.5	1,296.4	1,060.1	1,447.4
Weighted average number of shares used to compute diluted net earnings per share	116,711.9	116,642.6	116,703.7	116,736.6
Net earnings per share - basic	\$ 0.22	\$ 0.26	\$ 1.39	\$ 1.61
Net earnings per share - diluted	\$ 0.22	\$ 0.26	\$ 1.37	\$ 1.59

(a) As at December 28, 2008, 1,166,952 common share stock options (602,252 options as at December 30, 2007) were excluded from the calculation of diluted net earnings per share since the unrecognized future compensation cost of these options has an antidilutive effect.

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26. Effect of new accounting standards not yet implemented

Goodwill and intangible assets

In February 2008, the CICA published Section 3064 *Goodwill and Intangible Assets* which replaces Section 3062 of the same title. The section applies to fiscal years beginning on or after October 1, 2008 or first quarter 2009 for the Company. The new section confirms that upon their initial recognition, intangible assets are to be recognized as such only if they meet the definition of an intangible asset and the recognition criteria. Section 3064 also provides further guidance for the recognition of internally generated intangible assets.

The Company is currently evaluating the impact of the new section on its consolidated financial statements. Based on analyses to date, certain assets included on the Company's balance sheet will no longer meet the requirements of the new section, notably, pre-opening expenses for stores and distribution centres (included in Other assets), advertising costs for store openings and costs incurred for Olympic and Paralympic sponsorship (included in Prepaid expenses). In first quarter 2009, the balances in these asset accounts as at December 31, 2007 – that is, at the beginning of first quarter 2008 – will be restated and included in Retained Earnings and the results of operations of 2008 will also be restated to conform to the 2009 presentation.

As at December 28, 2008 according to analyses completed to date, the impact of the recommendations of the new section on the consolidated financial statements for the first period of application consists of a \$21,784 reduction in prepaid expenses (\$12,143 as at December 31, 2007), a \$11,269 reduction in other assets (\$15,753 as at December 31, 2007), a \$3,571 reduction in net earnings and a \$31,467 reduction in retained earnings.

International Financial Reporting Standards (IFRS)

In February 2008, the Accounting Standards Board of Canada announced that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS for financial statements relating to fiscal years beginning on or after January 1, 2011. When converting from Canadian GAAP to IFRS, the Company will prepare both current and comparative information using IFRS. The Company expects this transition to have an impact on its accounting policies, financial reporting and information systems. The Company is currently evaluating the impact of these new standards on its consolidated financial statements.