



PRESS RELEASE
FOR IMMEDIATE RELEASE

RONA CONTINUED TO CONSOLIDATE ITS MARKET IN 2010

TEN ACQUISITIONS COMPLETED AND DOUBLE-DIGIT GROWTH GENERATED IN COMMERCIAL AND PROFESSIONAL DIVISION

Boucherville, Quebec, February 24, 2011 – RONA inc. (TSX: RON), the largest Canadian distributor and retailer of hardware, renovation and gardening products, today reported its financial results for the 13-week and 52-week periods ended December 26, 2010 (fourth quarter and twelve months of 2010). All \$ figures in this release are Canadian dollars unless otherwise stated.

2010 FINANCIAL HIGHLIGHTS

Compared to 2009:

- Total sales increased 2.6%, same-store sales remained flat
- Double-digit growth generated in the Commercial and Professional Market division
- Gross margin up 39 basis points and adjusted gross margin up 32 basis points to 30.59%
- EBITDA of \$344.0 million, up 3.3%
- Net earnings of \$143.2 million, up 3.6%
- Earnings per share (diluted) was \$1.09, down 1.8%

2010 OPERATIONAL HIGHLIGHTS

- Increased positioning in key markets across Canada, market share up from 17.5% to 19.0%
- Ten acquisitions completed in 2010: four in the Commercial and Professional Market division, five in the retail sector and one in the distribution sector
- Continued growth of the affiliated dealer network with new dealers recruited and many expansion and remerchandising projects completed by dealers, including five projects completed under RONA's unique succession planning program
- Increased penetration rate of our private and controlled brands from 19% to 24%, 2011 target of 24% achieved a year ahead of schedule
- Highly successful RONAdvantages program saw the number of new cards issued tripled over last year
- Implemented sustainability initiatives dealing with products, procurement policies and environmental footprint
- Dividend declared and policy established, reflecting confidence in future growth and value creation

"Again in 2010, RONA demonstrated its agility and ability to emerge stronger from the face of challenges. Although the economy has been slow to rebound, we were able to capitalize on growth opportunities. Through acquisitions, we moved much closer to realizing our objective of a national platform for the commercial and professional market, we gave our distribution business an important boost and we increased our retail presence in strategic Eastern Canada locations," stated Robert Dutton, President and CEO of RONA. "We are now at 19% market share, up from 17.5% at the beginning of the year, and on target to reach our 20% objective by the end of 2011. During this challenging year we continued to improve our overall efficiency as well as customer loyalty and we got the first tangible benefits of our unique \$100 million succession planning fund launched last year with five projects completed by young entrepreneurs from our independent dealer network."

"As 2011 unfolds, our new, integrated and regional approach is expected to bring significant benefits. We are also poised to grow our distribution and commercial and professional segments and reduce the cyclical nature of our business by continuing to consolidate the Canadian market," said Mr. Dutton.

FINANCIAL RESULTS

CONSOLIDATED RESULTS FOR THE TWELVE-MONTH PERIOD ENDED DECEMBER 26, 2010

The results discussed and analyzed in this section are for the twelve-month period ended December 26, 2010 and, when compared, are compared to the results for the twelve-month period ended December 27, 2009, unless otherwise indicated.

Sales were \$4,799.9 million, up \$122.5 million, or 2.6%, while same-store sales were flat. The increase was the result of a 2.4% increase in retail and commercial segment sales and a 3.4% increase in distribution segment sales.

The lack of growth in same-store sales reflects mainly the continued decline in consumer confidence and lower housing activity in the second part of the year. It also reflects tax credits that were available to consumers last year, but not this year. Sales growth relating to acquisitions, new stores and the Commercial and Professional Market division helped to offset this pressure.

Retail consumers are being more prudent and selective in their spending as they are worried about the economy, job creation and their debt levels. This behaviour was reflected in less traffic through the stores and lower weekend and install sales. However, for those who did shop, the average size of the basket was up slightly, suggesting that the merchandising and in-store service initiatives were having good success.

While this consumer malaise is affecting all regions, it was more evident in Western Canada where economic conditions are still tougher than in the rest of Canada. Atlantic Region sales saw some strengthening as the integration of the Pierceys acquisition progressed smoothly. Quebec stores did reasonably well, particularly the Réno-Dépôt stores and the stores that had expanded from the RONA Le Régional to the RONA L'entrepôt banner, while commercial and professional market sales were particularly strong in Ontario. This resulted in relatively stronger sales in Eastern Canada than Western Canada.

Lighting and HVAC were the best performing categories for the retail and commercial segment in 2010, while private-brand and controlled-brand products continued to do well, with the penetration rate increasing from 19% at the beginning of the year to 24% by the end of the year. The flooring, seasonal and kitchen categories, as well as installation services, benefitted in 2009 from the renovation tax credits being provided by the various levels of governments. In 2010, these categories did not perform as well, largely because the tax credits ended early in the year.

Sales to commercial and professional customers by the specialized Commercial and Professional Market division, as well as by the retail stores, were particularly strong this year with many infrastructure projects underway and strong housing starts for multiple units. The Company's strong service and purchasing power enabled it to continue to gain market share in this segment.

The gross margin was 27.75%, up 39 basis points while the adjusted gross margin was up by 32 basis points, to 30.59%. Growth comes from shrink reduction, optimisation of product categories, better conditions from vendors, as well as increased imports and private and controlled brand sales, partly offset by increases in overseas shipping costs and changes in product mix.

EBITDA amounted to \$344.0 million, an increase of \$11.0 million, or 3.3%, as the result of a 5.4% increase in the retail and commercial segment EBITDA and a 3.3% decrease in the distribution segment EBITDA.

The EBITDA margin was up 5 basis points to 7.17%, reflecting a 21 basis point increase for the retail and commercial segment offset by a 45 basis point decrease for the distribution segment.

Excluding unusual items, EBITDA was down \$2.8 million, or 0.8%, and the EBITDA margin was down 24 basis points. Charges for unusual items were incurred only in 2009, in the retail and commercial segment, and related to the cost of store closures. This decrease is attributable to higher transportation costs, costs relating to new store start-ups that have not yet reached their full potential and a strong increase in the sales of lumber products to affiliated dealers, which was positive for the loyalty rate of their purchases at RONA, but put pressure on the Company's EBITDA margin as the margin on these products is lower than our average margin. The margin was also affected by the acquisition of businesses with lower margin than our average margin. This situation will gradually be eliminated as expected synergies are realized.

Interest expenses on long-term debt and bank loans were down \$1.0 million, or 4.3%. This decline is attributable to a share issue in June 2009 and a continued effort to maintain a more disciplined management of the balance sheet and capital investments.

Amortization and depreciation costs totalled \$110.9 million, an increase of \$7.7 million, or 7.5%. This increase can be attributed to the opening of new retail corporate stores, the renovation program for existing retail corporate stores, acquisitions and ongoing improvements to information systems.

Net earnings were up \$5.0 million to \$143.2 million, and earnings per share (diluted) were down \$0.02 to \$1.09. Excluding unusual items recorded in 2009, net earnings were down \$4.6 million, or 3.1%, and earnings per share (diluted) were down \$0.10, or 8.4%, reflecting a decrease in EBITDA and higher amortization and depreciation charges partly offset by reduced interest expenses.

CONSOLIDATED RESULTS FOR THE THREE-MONTH PERIOD ENDED DECEMBER 26, 2010

The results discussed and analyzed in this section are for the thirteen-week period ended December 26, 2010 and, when compared, are compared to the results for the thirteen-week period ended December 27, 2009, unless otherwise indicated.

Consolidated sales in fourth quarter 2010 totalled \$1,136.6 million, down \$4.4 million, or 0.4%, the result of a \$16.5 million, or 1.9%, decline in sales for the retail and commercial segment, partly offset by a \$12.1 million, or 4.6%, increase in distribution segment sales. Same-store sales were down 6.4%.

Sales for the retail and commercial segment in 2009 were positively impacted by increasing consumer confidence and renovation tax credit programs which were nearing an end, while in 2010, consumer confidence was on the decline and the government tax credit programs had all expired in the early part of the year. In addition, fourth quarter 2010 housing resales and new starts both experienced double-digit decreases. The decline in sales resulting from these factors more than offset the growth in sales as a result of acquisitions and new store openings. Distribution segment sales were also affected by these same factors, but the impacts were more than offset by the growth generated by the expansion of the affiliated dealer network.

EBITDA amounted to \$67.6 million, a decrease of \$11.3 million, or 14.3%, as the result of a \$9.9 million, or 15.6%, decrease in the retail and commercial segment EBITDA and a \$1.4 million, or 8.9%, decrease in the distribution segment EBITDA. Excluding unusual items, EBITDA was down \$10.9 million, or 13.9%.

The EBITDA margin was down 97 basis points to 5.94% reflecting a 101 basis point decrease for the retail and commercial segment and a 77 basis point decrease for the distribution segment. Excluding unusual items, the EBITDA margin was down 93 basis points.

The decreases in the EBITDA and in the EBITDA margin excluding unusual items were driven by lower sales and increased SG&A expenses resulting from acquisitions, renovations and new construction in the retail and commercial segment, as well as by higher shipping costs and a strong increase in the sales of lumber products to affiliated dealers, which was positive for the loyalty rate of their purchases at RONA, but put pressure on the distribution

segment's EBITDA margin as the margin on these products is lower than our average margin. The consolidated EBITDA margin was also affected by the acquisitions completed during the year which generated a lower margin than our average margin. This situation will gradually be eliminated as expected synergies are realized.

Net earnings in the fourth quarter of 2010 decreased by \$8.7 million, or 28.1%, to \$22.2 million, or \$0.17 per share (diluted). Net earnings were down due primarily to a decline in EBITDA of \$11.3 million and higher amortization and depreciation charges, partly offset by lower income tax and interest expense. Excluding unusual items recorded in 2009, relating to store closures in the retail and commercial segment, net earnings were down \$8.4 million, or 27.5%.

Key segment figures	Quarter ended		Year ended	
	December 26, 2010	December 27, 2009	December 26, 2010	December 27, 2009
(Unaudited, in thousands of dollars)				
Segment sales				
Retail and commercial	860,778	877,304	3,624,361	3,540,227
Distribution	511,828	527,597	2,384,853	2,318,172
Total	1,372,606	1,404,901	6,009,214	5,858,399
Intersegment sales and royalties				
Retail and commercial	-	-	-	-
Distribution	(236,039)	(263,969)	(1,209,349)	(1,181,040)
Total	(236,039)	(263,969)	(1,209,349)	(1,181,040)
Sales				
Retail and commercial	860,778	877,304	3,624,361	3,540,227
Distribution	275,789	263,628	1,175,504	1,137,132
Total	1,136,567	1,140,932	4,799,865	4,677,359
EBITDA				
Retail and commercial	53,207	63,067	266,479	252,840
Distribution	14,349	15,744	77,548	80,154
Total	67,556	78,811	344,027	332,994
EBITDA (excluding unusual items)				
Retail and commercial	53,207	62,684	266,479	266,649
Distribution	14,349	15,744	77,548	80,154
Total	67,556	78,428	344,027	346,803
EBITDA margin				
Retail and commercial	6.18%	7.19%	7.35%	7.14%
Distribution	5.20%	5.97%	6.60%	7.05%
Total	5.94%	6.91%	7.17%	7.12%
EBITDA margin (excluding unusual items)				
Retail and commercial	6.18%	7.15%	7.35%	7.53%
Distribution	5.20%	5.97%	6.60%	7.05%
Total	5.94%	6.87%	7.17%	7.41%

CASH FLOWS AND FINANCIAL POSITION

For the year ended December 26, 2010, operations generated \$272.2 million, compared to \$258.5 million in 2009. Net of changes in working capital, operations generated \$124.1 million, compared to \$282.8 million in 2009. The differences in cash flow relating to changes in working capital items are mainly attributable to an increase in inventory reflecting the opening of new stores, new HVAC lines of products introduced in our Commercial and Professional Market division as well as new categories of products introduced in our retail network, the addition of new private and controlled brand products and imports. As a growing portion of our products are imported, we also wanted to get some products earlier this year to avoid the problematic transportation situation we had to deal with last year with a portion of our imports. The decrease in working capital is also attributable to an increase in accounts receivable coming from the growth of the Commercial and Professional Market division as well as a decrease in accounts payable coming from higher imports and changes in product mix.

Over the past year, the Company exercised disciplined financial management and strictly monitored investments in fixed assets. For the year ended December 26, 2010, RONA invested \$149.6 million in capital and intangible assets, \$12.3 million less than the \$161.9 million invested in 2009. These investments were devoted to the expansion of our retail network, including the construction of new stores, renovations and upgrades of existing stores, as well as maintenance. We also allotted part of these investments to ongoing improvements in our information systems, in order to increase our operational efficiency.

With the approval of the Toronto Stock Exchange, during the second quarter, the Board of Directors of the Company has authorized RONA to purchase in the normal course of its activities, from June 21, 2010 to June 20, 2011, up to 3,250,000 common shares, representing 2.5% of its 129,936,351 common shares issued and outstanding on June 7, 2010. Under the issuer bid, the purchases will be made at market prices through the facility of the Toronto Stock Exchange or alternative Canadian trading platforms, in accordance with the rules and policies of the Toronto Stock Exchange. The common shares thereby purchased will be cancelled. The average daily trading volume (ADTV) of the Company's common shares was 293,413 on the Toronto Stock Exchange over the first six completed calendar months of the year. Accordingly, since the Company is entitled to purchase up to 25% of the ADTV on any trading day, it can purchase 73,353 common shares per day in addition to block trades in accordance with the Toronto Stock Exchange rules. Since the Company has the financial flexibility required to execute its growth plan, it will use its normal course issuer bid to eliminate the dilutive effect caused by the issuance of common shares when businesses are acquired. The Company believes that the purchase of its common shares represents an effective use of its funds and is in the best interests of the Company and its shareholders. Shareholders may obtain a free copy of the documents filed with the Exchange concerning this bid by writing to the Corporate Secretary of the Company. In the second and third quarter of 2010, the Company repurchased 2,230,067 shares for a total consideration of \$31.6 million in order to avoid dilution caused by the issuance of shares relating to the acquisition of Pierceys.

Cash flow from operations, along with cash available at the beginning of the year, has been used over the period to fund acquisitions, capital expenditures and working capital. As a result, compared to December 27, 2009, net debt was up \$185.4 million. As at December 26, 2010, RONA had \$75.6 million in cash, which will be used over forthcoming quarters to realize various growth projects in Phase 2 of the Company's 2008–2011 strategic plan. RONA also has an undrawn committed credit facility of up to \$650 million.

The Board of Directors established a new dividend policy and announced on December 8, 2010 that a cash dividend is to be payable to holders of RONA's common shares on a semi-annual basis when declared. The first payment, a \$0.07 per share dividend, is payable on March 25, 2011 to holders of record on March 10, 2011. The Board will review the policy from time to time in light of the Company's cash flow, earnings, financial position and other relevant factors.

On February 22, 2011, RONA issued Series 6 Class A Preferred Shares for total gross proceeds of \$150 million. The net proceeds of the offering will be used by RONA to reduce indebtedness, contribute to the funding of future acquisitions, capital projects and for general corporate purposes. This will further strengthen RONA's balance sheet,

diversify its sources of financing and increase its financial flexibility in order to continue to execute the Company's strategic plan. Further details regarding these shares may be found in the Company's press release of February 1, 2011.

While cash has been used to fund acquisitions and capital expenditures over the past year, RONA's balance sheet has remained strong. On December 26, 2010, the ratio of total net debt to capital was 16.9%, compared to 10.4% as at December 27, 2009. The ratio of equity to assets was 64.6% at the end of 2010, compared to 64.7% as at December 27, 2009.

The Company's operations generate substantial cash flow. With relatively low debt and long-term fixed rates on most of its long-term debt, RONA also has substantial liquidity and can borrow many millions more at competitive rates. Our financial resources are therefore sufficient to pursue disciplined development of our four growth vectors: customer growth, construction of new stores, recruitment of affiliated dealers and acquisitions.

UPDATE ON THE COMPANY'S STRATEGIC ORIENTATION

On February 27, 2008, RONA released its strategic plan for 2008-2011. The plan comprised two phases. Phase 1 of the plan focused on productivity, efficiency, and profitability (the "PEP program"), over the 2008-2009 period. On January 25, 2010, RONA unveiled Phase 2 of its strategic plan (the "New World program"), which places renewed emphasis on growth over the 2010-2011 period.

RONA's 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. The information below is an update of the plan's progress in 2010.

1. Customer growth:

Customer growth will be stimulated by numerous initiatives to improve the customer experience – innovative store concepts, new product categories, new private-brand and controlled-label products, new tools and programs to improve customer loyalty, and new training programs for store employees.

- Success in the first year of Phase 2 is evidenced by the fact RONA increased market share to 19% by the end of the year, from 17.5% at the beginning of the year.
- Last spring, RONAdvantages was improved and made into a permanent program that is now one of the most advantageous customer programs in the industry in Canada. The program is linked with the new RONA credit card for consumers and the number of new cards issued during 2010 under this program was more than triple what was issued under the previous program during the whole year in 2009. These customers are our most loyal customers; they generally visit our stores more frequently and have a higher basket size than other customers, plus the program shows real clientele acquisition. This new program definitely contributed to gain market share in a difficult market.
- RONA's private-brand and controlled-brand product sales for the year continued to progress, bringing the penetration level of these products to 24%, up from 19% at the beginning of the year.
- The ability to meet the needs of commercial and professional customers is growing rapidly as the Commercial and Professional Market division makes significant strides to develop a national platform, largely through strategic acquisitions (for more information on the acquisitions see below) and strong organic growth.
- Fourteen stores were renovated during the year to improve the shopping experience: 11 in Ontario (Lindsay, Barrie, Windsor, Peterborough, Sheppard, Simcoe, Dundas, Oakville, Belleville, Midland and Kingston), 2 in Quebec (Anjou and Mascouche) and 1 in the Atlantic Provinces (O'Leary).

- In October, RONA entered into an exclusive partnership with the Calgary Flames of the NHL (National Hockey League) and a major junior hockey team, the Calgary Hitmen of the WHL (Western Hockey League). RONA's partnerships with MLSE (Maple Leaf Sports and Entertainment), signed in 2009, and the Calgary Flames, signed in 2010, are a continuation of its long-standing commitment to Canadian sports, both professional and amateur. RONA was a National Partner of the Vancouver 2010 Olympic and Paralympic Games. As well, it will be a National Partner of the Canadian Olympic and Paralympic Teams through the London 2012 Summer Games.
- Major "Made in Canada" advertising campaign for the Vancouver 2010 Olympic Winter Games raised consumer awareness of RONA from coast to coast. The campaign consisted of 14 television spots of 15, 30 and 60 seconds, which featured close-up portraits of two Canadian Olympic athletes, as well as other people who generally would not be in the spotlight during the Olympic Winter Games: RONA dealer-owners and employees, young apprentices at the RONA 2010 Vancouver Fabrication Workshop and the workers who did the job of building the Olympic venues. As a National Partner, RONA developed a five-year program to take part in the preparations for the 2010 Winter Games, and also to leave a legacy that would endure long after the Games were over. Its involvement was fourfold: direct support for 100 Canadian athletes, assistance in building more than a dozen Olympic venues, helping more than 60 young people from disadvantaged backgrounds learn a trade through the RONA Vancouver 2010 Fabrication Workshop, and getting RONA employees involved by sending approximately 100 of them to Vancouver as delegated volunteers.

2. Construction of new stores:

RONA has several different store concepts to meet the specific needs of the communities it serves, big or small, urban or not. Be it a totally new store, or the expansion or transformation of an existing one, RONA has a design to meet the needs.

- In 2010, new store construction has resulted in the addition of about 300,000 square-feet to the network.
- The corporate RONA Le Régional store located in St-Luc, Quebec became a RONA L'entrepôt big-box store. The Upper Richelieu region, which it serves, has grown considerably in the last ten years and is still growing. The expansion adds an extra 20,000 square feet to the store, which now offers the full line of services provided by the RONA L'entrepôt concept, including specialized boutiques. Unique in the home improvement sector, RONA boutiques are designed to support the renovation process and make it more efficient. The store has an inventory of over 45,000 different items.
- A new 73,000 square-foot proximity store was opened under the RONA banner in Saskatoon, Saskatchewan, replacing an older 35,000 square-foot store. It represents a \$22 million investment.
- A 35,000 square-foot proximity store in St. John's, Newfoundland and Labrador was renovated and reopened at a cost of \$2.8 million.
- A franchise dealer from St-Eustache, Quebec, expanded to become a RONA big-box store, investing \$6 million in the process. The expansion added 50,000 square feet to the existing store, for a total of 125,000 square feet. It now offers the full line of services provided by the RONA L'entrepôt concept.
- Two new 52,000 square-foot proximity stores were opened under the RONA banner, one in Sherwood Park, Alberta and the other in Welland, Ontario.
- A new 100,000 square-foot big-box store was opened in Aurora, Ontario under the RONA banner.
- A 68,000 square-foot store RONA proximity store will be built in St. John's, Newfoundland and Labrador, representing an investment of about \$20 million. Store is scheduled to open in spring 2011.
- Two new 100,000-square-foot Réno-Dépôt stores will be built in Vaudreuil and Sainte-Foy, Quebec, for a total investment of close to \$50 million. The locations of both sites were carefully chosen to allow RONA to serve customers better and expand its share of the Quebec market. Construction is underway on both sites. The stores are scheduled to open in spring 2011.
- Two new 52,000-square-foot TOTEM stores will be built in Edmonton, for a total investment of close to \$40 million (including land purchased in previous years). Both sites were carefully chosen to allow RONA to better serve its growing customer base and expand its market share in the Alberta market. One store is expected to open in the spring of 2011, while the other is expected to open in 2012.

3. Development of the affiliated dealer network:

In addition to recruiting new dealers to the group and helping existing dealers improve and expand their stores, a key element of development in this area is RONA's newly-minted succession-planning program. It was designed to secure RONA's leadership in the market and sustain the growth of its network. The Company's new succession-planning program will help RONA attract next-generation dealer-owners and continue to be the company that offers independent dealer-owners in Canada the best development support.

- In 2010, 250,000 square-feet of store space has been added through the recruitment of new dealers and the expansion of existing dealer stores (83,000 square-feet through recruitment and 167,000 square-feet through expansion projects). This represents more than \$100 million in annual retail sales (about \$60 million relating to new dealers and \$40 million to expansion projects, which includes 49,500 square-feet associated with the new Blainville store detailed below). RONA dealers have completed 84 projects in total, which include 23 expansions projects and 61 remerchandising projects. These projects represent close to \$35 million in investments by our dealers. Counting the recruitment and all projects completed by RONA dealers, the Company has achieved its objective of adding \$100 million to \$150 million of annual retail sales to its dealer network.
- In Blainville, Quebec, this past August, RONA dealer André Lespérance completed the conversion of an existing building into a new 49,500-square-foot proximity store, offering more than 25,000 products, and representing an investment of more than \$6 million in the local community. Renovation of the building that would become the new RONA store included measures to protect air quality and reduce energy consumption.
- A year after the introduction of the innovative succession-planning program in late 2009, five young leaders, representing four different projects, were the first selected to receive support from the Development Fund and recently two new projects were presented to the selection committee. This new program combined with the summer retreat described below is really gaining traction as more than 20 projects are currently under study by our young dealers and could potentially be presented to the selection committee in the coming year.
- In August, a youth forum was held in Kananaskis, Alberta for a number of young people representing the next generation of RONA leaders. This was the second such event. Led by Robert Dutton, RONA's President and CEO, the retreat consisted of active working sessions with senior members of RONA's management committee, as well as exchanges with industry experts and Canadian business leaders.

4. Acquisitions:

Through targeted acquisitions in retail, distribution and commercial and professional sectors, the Company will quickly grow different aspects of its operations and capabilities, such as market coverage, brand extension, leverage of existing infrastructure, product offerings, and purchasing power, while also reducing the cyclical nature of the retail business.

- Acquisitions are a key element in achieving the goal of establishing a national platform in the commercial and professional market. Of the eleven acquisitions completed since the beginning of 2010, five have been for this purpose. This division, which was formed in late 2007, today includes 46 stores and outlets, 4 distribution centres and 3 manufacturing facilities specialized in plumbing and HVAC (heating, ventilation and air conditioning):
 - 37 outlets, 2 distribution centres and 3 manufacturing facilities in Ontario.
 - 3 plumbing fixtures and accessories stores plus 2 distribution centres for plumbing parts and materials in Quebec.
 - 5 outlets and 1 plumbing fixtures and accessories store in British Columbia.

This year, through its subsidiary Noble, RONA acquired the assets of Plomberie Payette & Perreault inc., LGC Plomberie inc., Don Park Limited Partnership in Canada, MPH Supply Limited and, just following year-end, the assets of La Boutique Plomberie Décoration 25 Inc.

- One major acquisition was made to help grow the distribution segment and reduce the cyclical nature of RONA's business, that of TruServ Canada Inc. They operate two warehouse and distribution centres, one of 400,000 square feet in Winnipeg, Manitoba and one of 250,000 square feet in Kitchener, Ontario,

from where it supplies over 40,000 products (SKUs). It generates hardware distribution sales of over \$100 million and serves more than 650 independent dealers across Canada.

- Five acquisitions were made during 2010 which helps expand the retail store network: Pierceys in Nova Scotia, Boiserie Signées in Quebec, Welland Lumber in Ontario, Matériaux R. M. Bibeau Ltée and Matériaux Campagna in Quebec. The latest three transactions are acquisitions by RONA of dealer-owners from its network of affiliated stores.
 - Pierceys significantly increased RONA's presence in the Atlantic Provinces, with five hardware stores around the Halifax region, major lumberyards, and one of the biggest fleets of construction materials and hardware delivery trucks in Nova Scotia.
 - Through its subsidiary Matériaux Coupal, RONA acquired Boiserie Signées, a Quebec-based manufacturer of custom prefabricated stairs.
 - Ontario-based Welland Lumber was owned by a RONA affiliated dealer. The store was acquired by RONA and business was consolidated with a new proximity store which is twice the size of the former store.
 - Matériaux R. M. Bibeau Ltée added their six Quebec-based hardware stores, located in Sorel, Tracy, Varennes, Contrecoeur, Longueuil and Ste-Julie, to RONA's retail corporate store network.
 - Matériaux Campagna added three Quebec-based hardware stores, two located in Rouyn-Noranda and one in Senneterre, to RONA's retail corporate store network.

OUTLOOK

The Company implemented some organizational changes at the end of 2010 in order to help it pull together and leverage all the strengths of RONA's unique business model. The changes entail adopting a more integrated approach for the operation and development of its retail network, along with an increased regional focus designed to better address local market needs. These changes are aimed at optimizing the growth and consolidation of the RONA presence in key urban and regional markets in order to become the leader in each of those target markets.

While economic recovery is underway, the pace is modest and there are still concerns. Lingering economic uncertainty will therefore continue to put pressure on sales and earnings growth over the next quarter particularly in light of the effects of the renovation tax credits and an early spring which drove first quarter 2010 results. However, the underlying fundamentals for the industry are sound:

- Canada's housing market remains relatively strong compared to most other countries;
- there is pent-up demand in the renovation market, arising from an aging housing stock and the postponement of major renovations while homeowners wrestled with credit and debt worries; and
- Canadian interest rates remain low.

When the market does come back, RONA is well positioned to capitalize on it. The Company has:

- greater operational leverage than ever as a result of our PEP Program; and
- a considerably larger and more diversified network than in the past, as a result of successful recruitment, strategic acquisitions, new stores and continued investments in store renovation and relocation.

As 2011 unfolds, the new, integrated structural and regional approach is expected to bring significant benefits. RONA is also poised to grow its distribution and commercial and professional sectors and reduce the cyclical nature of its business by capitalizing on the growing opportunities in these two sectors to consolidate the Canadian market.

The progress made in 2010 — plus the added momentum provided by the many new initiatives and those to come — will enable the Company to resume double-digit bottom line growth and gradually improve its return on capital when market conditions improve, while maintaining an investment-grade credit profile and reducing the cyclical nature of RONA's operations.

SUSTAINABILITY

Sustainable development is a core component of RONA's strategic plan. Key programs have been developed and introduced in response to the Company's objectives. This past year, RONA has undertaken a number of sustainability initiatives dealing with its products, procurement policies, environmental footprint and corporate governance.

RONA first introduced its RONA ECO and eco-responsible products in 2008. This past year, another significant step was taken with the launch of an innovative online Eco-responsible Renovation Guide to help customers make environmentally responsible decisions when undertaking renovation or construction projects. The user-friendly Guide, based on the life-cycle approach, was developed in collaboration with the International Chair in Life Cycle Assessment of École Polytechnique de Montréal, Équiterre and Écohabitation. It is the most comprehensive, user-friendly tool of its type and, in the opinion of one expert, unprecedented in North America.

The life-cycle approach, which evaluates the impact of products and actions globally, is the same approach used to evaluate products and determine if they meet the standards of RONA ECO or eco-responsible products. To be accepted in the RONA ECO line, a product must leave a smaller ecological footprint than equivalent conventional products throughout its entire life cycle. To qualify as eco-responsible, these products must deliver a better environmental performance in one or more stages of their life cycle, whereas RONA ECO products must be superior considering all stages.

In April 2008, RONA rolled out its first eight RONA ECO products, along with 500 eco-responsible products. From those modest beginnings, the program has continued to grow, spurred on by the enthusiastic reception of consumers across Canada. RONA stores now offer some 450 RONA ECO products, ranging from cleansers to fertilizers, rainwater collectors, mouldings and much more, as well as more than 1,700 eco-responsible products.

With respect to purchasing practices, this past November, RONA introduced its new Responsible Procurement Policy (RPP). This policy encompasses the specific procurement policies already introduced by the Company for certain products, including the wood products procurement policy and the policy ending sales of synthetic cosmetic pesticides. This new policy is an update of the Responsible Buying Code introduced in 2002. The RONA RPP deals with all products and services sold in its stores, as well as goods and services used by the company.

Under the new policy, RONA's goal is to ensure that products sold by the Company:

- Have the least possible impact on the environment
- Are the result of the labour of workers whose rights are respected
- Contribute to social and economic development locally and regionally in Canada.

In order to thoroughly cover the issues relating to responsible procurement, RONA articulated the development of its policy in terms of rigorously identified principles based on analysis of best practices around the world and in consultation with recognized stakeholders. These stakeholders included ethical investment funds, special interest groups and experts specializing in the social and environmental sectors, as well as suppliers.

This past November, RONA issued a progress report for its wood products procurement policy, launched in fall 2008 and designed to help protect our forests and encourage consumers to buy wood from forests that have been sustainably and responsibly managed.

Under its wood products procurement policy, based on precise and measurable objectives which have been rigorously defined after consultation with various stakeholders, RONA has made a formal commitment to encourage responsible forest management through its purchasing practices. To this end, RONA has multiplied its efforts over the last two years to meet the objectives stated as part of the policy and, in some cases, achieved them as much as two years ahead of schedule. As a result, in RONA's corporate retail and franchise stores:

- 100% of the softwood lumber (spruce, pine and fir) and softwood plywood panel products for sale is sourced from certified forests;
- 30% of wood products available in RONA's retail corporate stores carry a certification label; and

- 25% of SPF lumber for sale in corporate and franchise stores will be sourced from FSC (Forest Stewardship Council) certified forests, an objective planned to be met by the end of 2012 and reached two years ahead of schedule.

RONA has also received FSC certification from Rainforest Alliance for the Chain of Custody of wood products in ten of its stores and three distribution centres. RONA is the largest hardware company in America to have obtained the FSC certification to date.

In addition to these achievements, six RONA stores now offer softwood lumber sourced exclusively from FSC certified forests. It should be noted that wood sourced from FSC certified forests is not widely available in Canada and that RONA intends to make it easier for consumers to have access to such products.

With respect to its own environmental footprint, RONA has been taking a pro-active approach to waste management, one that is designed to divert waste material generated by its operations from landfills. In addition to the environmental benefits, it brings the Company financial benefits in terms of cost avoidance and revenues from recovered materials. In October 2010, following the success of a pilot project, RONA announced a series of initiatives to reduce the environmental footprint of its stores, focusing on energy efficiency and waste management, including a zero waste initiative. The Company is actively pushing new programs throughout the organization with the intention of taking a leadership role in protecting the environment.

These various initiatives deal with a number of the many different elements of sustainable development and illustrates the Company's commitment to making sustainable development an integral part of RONA's strategic plan.

Strong corporate governance is also key in building sustainability. The Board has adopted a new pro-active policy that includes publishing an overview of its governance and compensation policies on the [Company's web site](#) and proactively communicating to stakeholders any significant changes. As well, means will be made available to stakeholders enabling them to submit to the Board any recommendations or suggestions for improvements to the Company's governance and compensation practices.

ADDITIONAL INFORMATION

The *Management's Discussion and Analysis (MD&A)* and audited financial statements for 2010 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 24, 2011, at 10:00 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.pgm.net/rona/ir/20110224e/>

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). 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 does not have a definition that is standardized by GAAP, it is widely used in our industry and in financial circles to measure the profitability of operations, excluding tax considerations and the cost and use of capital. Adjusted gross margin is used by RONA's management to analyze the profitability of its network, including all vendor

rebates. Given that these measures are not standardized, EBITDA and adjusted gross margin cannot be compared from one company to the next. Still, we establish them in the same way for each of the segments identified, and, unless expressly mentioned, our method does not change over time. EBITDA and adjusted gross margin must not be considered separately or as a substitute for other performance measures calculated according to GAAP, but rather as additional information.

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 *Press Release* reflect the Company’s expectations as at February 24, 2011, 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 more than 950 corporate, franchise and affiliate stores of various sizes and formats. With close to 30,000 employees working under its family of banners in every region of Canada and more than 17 million square feet of retail space, the RONA store network generates over \$6 billion in annual retail sales. Visit www.rona.ca.

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RONA inc.

Consolidated Earnings and Comprehensive Income

Years ended December 26, 2010 and December 27, 2009

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

	Fourth Quarter		Year-to-date	
	2010	2009	2010	2009
Sales	\$ 1,136,567	\$ 1,140,932	\$ 4,799,865	\$ 4,677,359
Earnings before the following items	67,556	78,811	344,027	332,994
Interest on long-term debt	4,954	5,277	20,226	20,951
Interest on bank loans	867	855	2,295	2,586
Depreciation and amortization	28,481	25,744	110,902	103,160
	34,302	31,876	133,423	126,697
Earnings before income taxes and non-controlling interest	33,254	46,935	210,604	206,297
Income taxes	9,777	14,268	61,918	62,714
Earnings before non-controlling interest	23,477	32,667	148,686	143,583
Non-controlling interest	1,325	1,842	5,465	5,331
Net earnings and comprehensive income	\$ 22,152	\$ 30,825	\$ 143,221	\$ 138,252
Net earnings per share				
Basic	\$ 0.17	\$ 0.24	\$ 1.10	\$ 1.12
Diluted	\$ 0.17	\$ 0.24	\$ 1.09	\$ 1.11

RONA inc.

Consolidated Retained Earnings

Consolidated Contributed Surplus

Years ended December 26, 2010 and December 27, 2009

(Unaudited, in thousands of dollars)

	2010	2009
Consolidated Retained Earnings		
Balance, beginning of year	\$ 1,161,808	\$ 1,028,876
Net earnings	143,221	138,252
Expenses relating to the issue of common shares, net of income tax recovery of \$2,042	—	(5,320)
Excess of purchase price over the stated value of repurchased common shares and related contributed surplus	(17,666)	—
Dividends declared on common shares	(9,119)	—
Balance, end of year	\$ 1,278,244	\$ 1,161,808
Consolidated Contributed Surplus		
Balance, beginning of year	\$ 13,475	\$ 12,563
Compensation cost relating to stock option plans	1,214	946
Repurchase of common shares – normal course issuer bid	(3,153)	—
Exercise of stock options	(62)	(34)
Balance, end of year	\$ 11,474	\$ 13,475

RONA inc.

Consolidated Cash Flows

Years ended December 26, 2010 and December 27, 2009

(Unaudited, in thousands of dollars)

	Fourth Quarter		Year-to-date	
	2010	2009	2010	2009
Operating activities				
Net earnings	\$ 22,152	\$ 30,825	\$ 143,221	\$ 138,252
Non-cash items				
Depreciation and amortization	28,481	25,744	110,902	103,160
Change in fair value of derivative financial instruments	(5)	(88)	(30)	462
Future income taxes	12,745	6,499	12,632	9,225
Net gain on disposal of assets	(1,681)	(523)	(2,921)	(2,358)
Impairment charge on fixed assets held for sale	—	—	—	2,050
Stock-based compensation	1,681	947	4,588	3,503
Difference between amounts paid for employee future benefits and current period cost	(1,378)	(1,967)	(2,744)	(3,088)
Non-controlling interest	1,325	1,842	5,465	5,331
Other items	327	576	1,043	1,975
	63,647	63,855	272,156	258,512
Changes in working capital items	16,292	2,265	(148,010)	24,262
Cash flows from operating activities	79,939	66,120	124,146	282,774
Investing activities				
Business acquisitions	(68,124)	(520)	(80,275)	(3,734)
Other investments	548	(442)	(2,533)	(3,990)
Fixed assets	(37,036)	(23,562)	(111,873)	(114,103)
Intangible assets	(21,024)	(14,238)	(37,709)	(47,796)
Other assets	(1,267)	(75)	(4,365)	(4,837)
Disposal of fixed assets	3,249	1,596	4,950	6,291
Disposal of investments	3,192	517	10,031	2,422
Cash flows from investing activities	(120,462)	(36,724)	(221,774)	(165,747)
Financing activities				
Bank loans and revolving credit	(13,979)	(810)	(7,172)	(43,046)
Other long-term debt	1,249	458	1,899	646
Repayment of other long-term debt and redemption of preferred shares	(20,285)	(6,234)	(30,433)	(15,819)
Issue of common shares	1,151	1,141	3,713	176,936
Cash dividends paid by a subsidiary to non-controlling interest	(2,450)	(1,470)	(2,450)	(1,470)
Expenses relating to the issue of common shares	—	—	—	(7,362)
Repurchase of common shares	—	—	(31,609)	—
Cash flows from financing activities	(34,314)	(6,915)	(66,052)	109,885
Net increase (decrease) in cash	(74,837)	22,481	(163,680)	226,912
Cash, beginning of year	150,414	216,776	239,257	12,345
Cash, end of year	\$ 75,577	\$ 239,257	\$ 75,577	\$ 239,257
Supplementary information				
Interest paid	\$ 446	\$ 535	\$ 23,171	\$ 25,493
Income taxes paid	\$ 10,448	\$ 19,124	\$ 43,270	\$ 49,450

RONA inc.

Consolidated Balance Sheets

December 26, 2010 and December 27, 2009

(Unaudited, in thousands of dollars)

	2010	2009
Assets		
Current assets		
Cash	\$ 75,577	\$ 239,257
Accounts receivable	303,836	250,845
Income taxes receivable	—	2,436
Inventory	905,467	726,262
Prepaid expenses	17,955	18,114
Derivative financial instruments	1,905	801
Future income taxes	12,869	15,914
	<u>1,317,609</u>	<u>1,253,629</u>
Investments	10,488	11,978
Fixed assets	918,273	861,302
Fixed assets held for sale	20,177	13,242
Goodwill	531,675	455,572
Intangible assets	118,747	96,885
Other assets	31,043	29,682
Future income taxes	27,065	27,593
	<u>\$ 2,975,077</u>	<u>\$ 2,749,883</u>
Liabilities		
Current liabilities		
Bank loans	\$ 1,943	\$ 5,211
Accounts payable and accrued liabilities	462,351	427,817
Dividends payable	9,119	—
Income taxes payable	3,634	—
Derivative financial instruments	1,653	776
Future income taxes	3,691	4,900
Instalments on long-term debt	21,151	9,996
	<u>503,542</u>	<u>448,700</u>
Long-term debt	444,333	430,524
Other long-term liabilities	33,121	31,317
Future income taxes	36,551	27,542
Non-controlling interest	35,920	32,761
	<u>1,053,467</u>	<u>970,844</u>
Shareholders' equity		
Capital stock	631,892	603,756
Retained earnings	1,278,244	1,161,808
Contributed surplus	11,474	13,475
	<u>1,921,610</u>	<u>1,779,039</u>
	<u>\$ 2,975,077</u>	<u>\$ 2,749,883</u>



MANAGEMENT'S DISCUSSION AND ANALYSIS 2010

YEAR ENDED DECEMBER 26, 2010

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 more than 950 corporate, franchise and affiliate stores, as well as seventeen hardware and building materials distribution centres.

RONA's sales include:

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

FINANCIAL STATEMENTS

RONA's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are expressed in Canadian dollars. RONA has filed its audited consolidated financial statements with the Canadian Securities Administrators for the year ended December 26, 2010. These statements can be viewed online at www.sedar.com or on RONA's website at www.rona.ca. This *Management's Discussion and Analysis* ("MD&A") should be read in conjunction with the Company's financial statements and related notes.

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

FISCAL YEAR

RONA's fiscal year ends on the last Sunday of each year and usually has 52 weeks. For interim disclosure purposes, quarters end on the last Sunday of March, June, September and December respectively, and have 13 weeks. The fiscal years ended on December 28, 2008, December 27, 2009 and December 26, 2010, include 52 weeks of operations.

HIGHLIGHTS OF THE LAST THREE YEARS

SELECTED ANNUAL INFORMATION

(In millions of dollars, except number of shares and earnings per share)

	Year ended		
	December 26, 2010	December 27, 2009	December 28, 2008 (Restated)
Sales	4,799.9	4,677.4	4,891.1
Net earnings	143.2	138.3	156.5
Net earnings per share	1.10	1.12	1.35
Diluted earnings per share	1.09	1.11	1.34
Net earnings (excluding unusual items)	143.2	147.8	167.5
Earnings per share (excluding unusual items)	1.10	1.20	1.45
Diluted earnings per share (excl unusual items)	1.09	1.19	1.44
Total assets	2,975.1	2,749.9	2,478.9
Long-term debt	465.5	440.5	494.2
Number of shares outstanding at year end	130,071,782	129,653,383	115,819,699

Note: The key figures for 2008 have been restated to reflect the application of Section 3064, "Goodwill and intangible assets" of the Canadian Institute of Chartered Accountants' (CICA) Handbook.

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. Over the last three years, RONA has embraced a strict management policy, resulting in a significant improvement in its operational efficiency, and has also managed its balance sheet very carefully during this period, slowing the pace of store openings and acquisitions, concentrating more on recruiting independent dealer-owners, and developing its existing store network.

At year end 2007 and the beginning of 2008, the level of activity in the western part of the country began to decline, especially in Alberta, where a large inventory of unsold homes had accumulated. In Quebec the situation stabilized, while in Ontario economic deterioration continued and accelerated in the third quarter as the financial crisis deepened. The automotive industry was severely affected in this region. In the Atlantic Provinces, Saskatchewan and Manitoba, 2008 was a good year, but these provinces represent only a small percentage of economic activity in Canada. Given all these factors, RONA's same-store sales declined by 4.6%. In general, the performance of stores in Alberta, British Columbia and Ontario were affected, while the stores in Quebec, the Prairies and Atlantic Provinces performed better than in the previous year. The numerous measures that RONA implemented in 2007, and more formally established early in 2008 as part of the PEP program, to improve efficiency, stimulate sales and increase customer loyalty helped offset the downward pressure of the difficult economic situation on the Company's results.

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

program enabled improvements in gross margin, reductions of inventory levels, optimization of the existing stores network and reduction of transportation and logistics costs.

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

Despite the general slowdown in certain regions of the country and the effects of the recession on consumer confidence, RONA, with its unique business model, has continued to consolidate its market over the last three years, while market share has risen from 17.0% at the beginning of 2008 to 19.0% by the end of 2010. This growth was achieved through the Company’s four growth vectors: customer growth or same-store sales growth, development of the affiliated dealer network, new store construction and acquisitions.

UPDATE ON THE COMPANY’S STRATEGIC ORIENTATION

On February 27, 2008, RONA released its strategic plan for 2008-2011. The plan was conceived to consist of two phases. Phase 1 of the plan focused on productivity, efficiency, and profitability (the “PEP program”), over the 2008-2009 period. On January 25, 2010, RONA unveiled Phase 2 of its strategic plan (the “New World program”), which places renewed emphasis on growth over the 2010-2011 period.

RONA’s 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. The information below is an update on the plan’s progress in 2010.

1. Customer growth:

Customer growth will be stimulated by numerous initiatives to improve the customer experience – innovative store concepts, new product categories, new private-brand and controlled-label products, new tools and programs to improve customer loyalty, and new training programs for store employees.

- Success in the first year of Phase 2 is evidenced by the fact RONA increased market share to 19% by the end of the year, from 17.5% at the beginning of the year.
- Last spring, RONAdvantages was improved and made into a permanent program that is now one of the most advantageous customer programs in the industry in Canada. The program is linked with the new RONA credit card for consumers and the number of new cards issued during 2010 under this program was more than triple what was issued under the previous program during the whole year in 2009. These customers are our most loyal customers; they generally visit our stores more frequently and have a higher basket size than other customers, plus the program shows real clientele acquisition. This new program definitely contributed to gain market share in a difficult market.
- RONA’s private-brand and controlled-brand product sales for the year continued to progress, bringing the penetration level of these products to 24%, up from 19% at the beginning of the year.
- The ability to meet the needs of commercial and professional customers is growing rapidly as the Commercial and Professional Market division makes significant strides to develop a national platform, largely through strategic acquisitions (for more information on the acquisitions see below) and strong organic growth.
- Fourteen stores were renovated during the year to improve the shopping experience: 11 in Ontario (Lindsay, Barrie, Windsor, Peterborough, Sheppard, Simcoe, Dundas, Oakville, Belleville, Midland and Kingston), 2 in Quebec (Anjou and Mascouche) and 1 in the Atlantic Provinces (O’Leary).
- In October, RONA entered into an exclusive partnership with the Calgary Flames of the NHL (National Hockey League) and a major junior hockey team, the Calgary Hitmen of the WHL (Western Hockey

League). RONA's partnerships with MLSE (Maple Leaf Sports and Entertainment), signed in 2009, and the Calgary Flames, signed in 2010, are a continuation of its long-standing commitment to Canadian sports, both professional and amateur. RONA was a National Partner of the Vancouver 2010 Olympic and Paralympic Games. As well, it will be a National Partner of the Canadian Olympic and Paralympic Teams through the London 2012 Summer Games.

- Major "Made in Canada" advertising campaign for the Vancouver 2010 Olympic Winter Games raised consumer awareness of RONA from coast to coast. The campaign consisted of 14 television spots of 15, 30 and 60 seconds, which featured close-up portraits of two Canadian Olympic athletes, as well as other people who generally would not be in the spotlight during the Olympic Winter Games: RONA dealer-owners and employees, young apprentices at the RONA 2010 Vancouver Fabrication Workshop and the workers who did the job of building the Olympic venues. As a National Partner, RONA developed a five-year program to take part in the preparations for the 2010 Winter Games, and also to leave a legacy that would endure long after the Games were over. Its involvement was fourfold: direct support for 100 Canadian athletes, assistance in building more than a dozen Olympic venues, helping more than 60 young people from disadvantaged backgrounds learn a trade through the RONA Vancouver 2010 Fabrication Workshop, and getting RONA employees involved by sending approximately 100 of them to Vancouver as delegated volunteers.

2. Construction of new stores:

RONA has several different store concepts to meet the specific needs of the communities it serves, big or small, urban or not. Be it a totally new store, or the expansion or transformation of an existing one, RONA has a design to meet the needs.

- In 2010, new store construction has resulted in the addition of about 300,000 square-feet to the network.
- The corporate RONA Le Régional store located in St-Luc, Quebec became a RONA L'entrepôt big-box store. The Upper Richelieu region, which it serves, has grown considerably in the last ten years and is still growing. The expansion adds an extra 20,000 square feet to the store, which now offers the full line of services provided by the RONA L'entrepôt concept, including specialized boutiques. Unique in the home improvement sector, RONA boutiques are designed to support the renovation process and make it more efficient. The store has an inventory of over 45,000 different items.
- A new 73,000 square-foot proximity store was opened under the RONA banner in Saskatoon, Saskatchewan, replacing an older 35,000 square-foot store. It represents a \$22 million investment.
- A 35,000 square-foot proximity store in St. John's, Newfoundland and Labrador was renovated and reopened at a cost of \$2.8 million.
- A franchise dealer from St-Eustache, Quebec, expanded to become a RONA big-box store, investing \$6 million in the process. The expansion added 50,000 square feet to the existing store, for a total of 125,000 square feet. It now offers the full line of services provided by the RONA L'entrepôt concept.
- Two new 52,000 square-foot proximity stores were opened under the RONA banner, one in Sherwood Park, Alberta and the other in Welland, Ontario.
- A new 100,000 square-foot big-box store was opened in Aurora, Ontario under the RONA banner.
- A 68,000 square-foot store RONA proximity store will be built in St. John's, Newfoundland and Labrador, representing an investment of about \$20 million store is scheduled to open in spring 2011.
- Two new 100,000-square-foot Réno-Dépôt stores will be built in Vaudreuil and Sainte-Foy, Quebec, for a total investment of close to \$50 million. The locations of both sites were carefully chosen to allow RONA to serve customers better and expand its share of the Quebec market. Construction is underway on both sites. The stores are scheduled to open in spring 2011.
- Two new 52,000-square-foot TOTEM stores will be built in Edmonton, Alberta, for a total investment of close to \$40 million (including land purchased in previous years). Both sites were carefully chosen to allow RONA to better serve its growing customer base and expand its market share in the Alberta market. One store is expected to open in the spring of 2011, while the other is expected to open in 2012.

3. **Development of the affiliated dealer network:**

In addition to recruiting new dealers to the group and helping existing dealers to improve and expand their stores, a key element of development in this area is RONA's newly-minted succession-planning program. It was designed to secure RONA's leadership in the market and sustain the growth of its network. The Company's new succession-planning program will help RONA attract next-generation dealer-owners and continue to be the company that offers independent dealer-owners in Canada the best development support.

- In 2010, 250,000 square-feet of store space has been added through the recruitment of new dealers and the expansion of existing dealer stores (83,000 square-feet through recruitment and 167,000 square-feet through expansion projects). This represents more than \$100 million in annual retail sales (about \$60 million relating to new dealers and \$40 million to expansion projects, which includes 49,500 square-feet associated with the new Blainville store detailed below). RONA dealers have completed 84 projects in total, which include 23 expansions projects and 61 remerchandising projects. These projects represent close to \$35 million in investments by our dealers. Counting the recruitment and all projects completed by RONA dealers, the Company has achieved its objective of adding \$100 million to \$150 million of annual retail sales to its dealer network.
- In Blainville, Quebec, this past August, RONA dealer André Lespérance completed the conversion of an existing building into a new 49,500-square-foot proximity store, offering more than 25,000 products, and representing an investment of more than \$6 million in the local community. Renovation of the building that would become the new RONA store included measures to protect air quality and reduce energy consumption.
- A year after the introduction of the innovative succession-planning program in late 2009, five young leaders, representing four different projects, were the first selected to receive support from the Development Fund and recently two new projects were presented to the selection committee. This new program combined with the summer retreat described below is really gaining traction as more than 20 projects are currently under study by our young dealers and could potentially be presented to the selection committee in the coming year.
- In August, a youth forum was held in Kananaskis, Alberta for a number of young people representing the next generation of RONA leaders. This was the second such event. Led by Robert Dutton, RONA's President and CEO, the retreat consisted of active working sessions with senior members of RONA's management committee, as well as exchanges with industry experts and Canadian business leaders.

4. **Acquisitions:**

Through targeted acquisitions in retail, distribution and commercial and professional sectors, the Company will quickly grow different aspects of its operations and capabilities, such as market coverage, brand extension, leverage of existing infrastructure, product offerings, and purchasing power, while also reducing the cyclical nature of the retail business.

- Acquisitions are a key element in achieving the goal of establishing a national platform in the commercial and professional market. Of the eleven acquisitions completed since the beginning of 2010, five have been for this purpose. This division, which was formed in late 2007, today includes 46 stores and outlets, 4 distribution centres and 3 manufacturing facilities specialized in plumbing and HVAC (heating, ventilation and air conditioning):
 - 37 outlets, 2 distribution centres and 3 manufacturing facilities in Ontario.
 - 3 plumbing fixtures and accessories stores plus 2 distribution centres for plumbing parts and materials in Quebec.
 - 5 outlets and 1 plumbing fixtures and accessories store in British Columbia.This year, through its subsidiary Noble, RONA acquired the assets of Plomberie Payette & Perreault inc., LGC Plomberie inc., Don Park Limited Partnership in Canada, MPH Supply Limited and, just following year-end, the assets of La Boutique Plomberie Décoration 25 Inc.
- One major acquisition was made to help grow the distribution segment and reduce the cyclical nature of RONA's business, that of TruServ Canada Inc. They operate two distribution centres, one of 400,000 square feet in Winnipeg, Manitoba and one of 250,000 square feet in Kitchener, Ontario, from

where it supplies over 40,000 products (SKUs). It generates hardware distribution sales of over \$100 million and serves more than 650 independent dealers across Canada.

- Five acquisitions were made during 2010 which helps expand the retail store network: Pierceys in Nova Scotia, Boiserie Signées in Quebec, Welland Lumber in Ontario, Matériaux R. M. Bibeau Ltée and Matériaux Campagna in Quebec. The latest three transactions are acquisitions by RONA of dealer-owners from its network of affiliated stores.
 - Pierceys significantly increased RONA's presence in the Atlantic Provinces, with five hardware stores around the Halifax region, major lumberyards, and one of the biggest fleets of construction materials and hardware delivery trucks in Nova Scotia.
 - Through its subsidiary Matériaux Coupal, RONA acquired Boiserie Signées, a Quebec-based manufacturer of custom prefabricated stairs.
 - Ontario-based Welland Lumber was owned by a RONA affiliated dealer. The store was acquired by RONA and business was consolidated with a new proximity store which is twice the size of the former store.
 - Matériaux R. M. Bibeau Ltée added their six Quebec-based hardware stores, located in Sorel, Tracy, Varennes, Contrecoeur, Longueuil and Ste-Julie, to RONA's retail corporate store network.
 - Matériaux Campagna added three Quebec-based hardware stores, two located in Rouyn-Noranda and one in Senneterre, to RONA's retail corporate store network.

ANALYSIS OF CONSOLIDATED RESULTS

The results discussed and analyzed in this section are for the year ended December 26, 2010 and, when compared, are compared to the results for the year ended December 27, 2009, unless otherwise indicated.

Economic conditions

The economic recovery which began in the second half of 2009 continued on through 2010. While there was a surge of economic activity in the first quarter of the year, the pace of economic growth slowed somewhat over the following three quarters, resulting in positive, but moderate economic growth for the year as a whole. While the economy recovered, consumer confidence experienced a slide over the course of the year and, in the latter half of the year, there was a slowdown in housing market activity, when compared to 2009. As well, the incentives introduced by various levels of government during 2009 in the form of tax credit programs expired in early 2010.

Sales

Sales were \$4,799.9 million, up \$122.5 million, or 2.6%, while same-store sales were flat. The increase was the result of a 2.4% increase in retail and commercial segment sales and a 3.4% increase in distribution segment sales.

Gross margin

The gross margin was 27.75%, up 39 basis points while the adjusted gross margin was up by 32 basis points, to 30.59%. Growth comes from shrink reduction, optimisation of product categories, better conditions from vendors, as well as increased imports and private and controlled brand sales, partly offset by increases in overseas shipping costs and changes in product mix.

EBITDA

EBITDA amounted to \$344.0 million, an increase of \$11.0 million, or 3.3%, as the result of a 5.4% increase in the retail and commercial segment EBITDA and a 3.3% decrease in the distribution segment EBITDA.

The EBITDA margin was up 5 basis points to 7.17%, reflecting a 21 basis point increase for the retail and commercial segment offset by a 45 basis point decrease for the distribution segment.

Excluding unusual items, EBITDA was down \$2.8 million, or 0.8%, and the EBITDA margin was down 24 basis points. Charges for unusual items were incurred only in 2009, in the retail and commercial segment, and related to the cost of store closures. This decrease is attributable to higher transportation costs, costs relating to new store start-ups that

have not yet reached their full potential and a strong increase in the sales of lumber products to affiliated dealers, which was positive for the loyalty rate of their purchases at RONA but put pressure on the Company's EBITDA margin as the margin on these products is lower than our average margin. The margin was also affected by the acquisition of businesses with lower margin than our average margin. This situation will gradually be eliminated as expected synergies will be realized.

Interest, amortization and depreciation

Interest expenses on long-term debt and bank loans were down \$1.0 million, or 4.3%. This decline is attributable to a share issue in June 2009 and a continued effort to maintain a more disciplined management of the balance sheet and capital investments.

Amortization and depreciation costs totalled \$110.9 million, an increase of \$7.7 million, or 7.5%. This increase can be attributed to the opening of new retail corporate stores, the renovation program for existing retail corporate stores, acquisitions and ongoing improvements to information systems.

Net earnings

Net earnings were up \$5.0 million to \$143.2 million, and earnings per share (diluted) were down \$0.02 to \$1.09. Excluding unusual items recorded in 2009, net earnings were down \$4.6 million, or 3.1%, and earnings per share (diluted) were down \$0.10, or 8.4%, reflecting a decrease in EBITDA and higher amortization and depreciation charges partly offset by reduced interest expenses.

ANALYSIS OF SEGMENT RESULTS

The results discussed and analyzed in this section are for the year ended December 26, 2010 and, when compared, are compared to the results for the year ended December 27, 2009, unless otherwise indicated.

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

The retail and commercial segment regroup RONA's corporate and franchised stores ("Retail") its Commercial and Professional Market division ("Commercial").

Key segment figures (In thousands of dollars)	Year ended		\$ change from 2009	% change from 2009
	December 26, 2010	December 27, 2009		
Segment sales				
Retail and commercial	3,624,361	3,540,227	84,134	2.4%
Distribution	2,384,853	2,318,172	66,681	2.9%
Total	6,009,214	5,858,399	150,815	2.6%
Intersegment sales and royalties				
Retail and commercial	-	-	-	-
Distribution	(1,209,349)	(1,181,040)	(28,309)	(2.4%)
Total	(1,209,349)	(1,181,040)	(28,309)	(2.4%)
Sales				
Retail and commercial	3,624,361	3,540,227	84,134	2.4%
Distribution	1,175,504	1,137,132	38,372	3.4%
Total	4,799,865	4,677,359	122,506	2.6%
EBITDA				
Retail and commercial	266,479	252,840	13,639	5.4%
Distribution	77,548	80,154	(2,606)	(3.3%)
Total	344,027	332,994	11,033	3.3%
EBITDA (excluding unusual items)				
Retail and commercial	266,479	266,649	(170)	(0.1%)
Distribution	77,548	80,154	(2,606)	(3.3%)
Total	344,027	346,803	(2,776)	(0.8%)
EBITDA margin				
Retail and commercial	7.35%	7.14%	-	+21 b.p.
Distribution	6.60%	7.05%	-	-45 b.p.
Total	7.17%	7.12%	-	+5 b.p.
EBITDA margin (excluding unusual items)				
Retail and commercial	7.35%	7.53%	-	-18 b.p.
Distribution	6.60%	7.05%	-	-45 b.p.
Total	7.17%	7.41%	-	-24 b.p.

Retail and commercial

Sales were \$3,624.4 million, an increase of \$84.1 million, or 2.4%, driven by acquisitions, strong growth in the Commercial and Professional Division, and new stores. Same-store sales were flat for the year.

The lack of growth in same-store sales reflects mainly the continued decline in consumer confidence and lower housing activity in the second part of the year. It also reflects tax credits that were available to consumers last year,

but not this year. Sales growth relating to acquisitions, new stores and the Commercial and Professional Market division helped to offset this pressure.

Retail consumers are being more prudent and selective in their spending as they are worried about the economy, job creation and their debt levels. This behaviour was reflected in less traffic through the stores and lower weekend and install sales. However, for those who did shop, the average size of the basket was up slightly, suggesting that the merchandising and in-store service initiatives were having good success.

While this consumer malaise is affecting all regions, it was more evident in Western Canada where economic conditions are still tougher than in the rest of Canada. Atlantic Region sales saw some strengthening as the integration of the Pierceys acquisition progressed smoothly. Quebec stores did reasonably well, particularly the Réno-Dépôt stores and the stores that had expanded from the RONA Le Régional to the RONA L'entrepôt banner, while commercial and professional market sales were particularly strong in Ontario. This resulted in relatively stronger sales in Eastern Canada than Western Canada.

Lighting and HVAC were the best performing categories for the segment in 2010, while private-brand and controlled-brand products continued to do well, with the penetration rate increasing from 19% at the beginning of the year to 24% by the end of the year. The flooring, seasonal and kitchen categories, as well as installation services, benefitted in 2009 from the renovation tax credits being provided by the various levels of governments. In 2010, these categories did not perform as well, largely because the tax credits ended early in the year.

Sales to commercial and professional customers by the specialized Commercial and Professional division, as well as by the retail stores, were particularly strong this year with many infrastructure projects underway and strong housing starts for multiple units. The Company's strong service and purchasing power enabled it to continue to gain market share in this segment.

EBITDA was \$266.5 million, an increase of \$13.6 million, or 5.4%, and the EBITDA margin grew by 21 basis points, to 7.35%. Excluding unusual items, EBITDA would have been down \$0.2 million, or 0.1%, and the EBITDA margin would have been down 18 basis points. This decrease is attributable to costs relating to new store start-ups that have not yet reached their full potential. The margin was also affected by the acquisition of businesses with lower margin than our average margin for the segment. This situation will gradually be eliminated as expected synergies will be realized.

Distribution

Net of intersegment activities, distribution sales increased 3.4% to \$1,175.5 million. The increase was driven by the expansion of our affiliated dealer network, increased lumber sales, as a result of a new program for our dealers, and the acquisition of TruServ Canada, a company with 650,000 square feet of warehousing and distribution space and generating hardware distribution sales of over \$100 million.

The distribution segment generated \$77.5 million in EBITDA, a decrease of \$2.6 million, or 3.3%. The EBITDA margin decreased 45 basis points, to 6.60%. While sales were up, this segment was hit hard by higher shipping costs and a strong increase in the sales of lumber products to affiliated dealers, which was positive for the loyalty rate of their purchases at RONA but put pressure on the Company's EBITDA margin as the margin on these products is lower than our average margin. The margin was also affected by the acquisition of TruServ Canada which generates a lower margin than our average margin for the segment. This situation will gradually be eliminated as expected synergies will be realized.

CASH FLOWS AND FINANCIAL POSITION

For the year ended December 26, 2010, operations generated \$272.2 million, compared to \$258.5 million in 2009. Net of changes in working capital, operations generated \$124.1 million, compared to \$282.8 million in 2009. The differences in cash flow relating to changes in working capital items are mainly attributable to an increase in inventory reflecting the opening of new stores, new HVAC lines of products introduced in our Commercial and Professional Market division as well as new categories of products introduced in our retail network, the addition of new private and controlled brand products and imports. As a growing portion of our products are imported, we also wanted to get some products earlier this year to avoid the problematic transportation situation we had to deal with last year with a portion of our imports. The decrease in working capital is also attributable to an increase in accounts receivable coming from the growth of the Commercial and Professional Market division as well as a decrease in accounts payable coming from higher imports and changes in product mix.

Over the past year, the Company exercised disciplined financial management and strictly monitored investments in fixed assets. For the year ended December 26, 2010, RONA invested \$149.6 million in capital and intangible assets, \$12.3 million less than the \$161.9 million invested in 2009. These investments were devoted to the expansion of our retail network, including the construction of new stores, renovations and upgrades of existing stores, as well as maintenance. We also allotted part of these investments to ongoing improvements in our information systems, in order to increase our operational efficiency.

With the approval of the Toronto Stock Exchange, during the second quarter, the Board of Directors of the Company has authorized RONA to purchase in the normal course of its activities, from June 21, 2010 to June 20, 2011, up to 3,250,000 common shares, representing 2.5% of its 129,936,351 common shares issued and outstanding on June 7, 2010. Under the issuer bid, the purchases will be made at market prices through the facility of the Toronto Stock Exchange or alternative Canadian trading platforms, in accordance with the rules and policies of the Toronto Stock Exchange. The common shares thereby purchased will be cancelled. The average daily trading volume (ADTV) of the Company's common shares was 293,413 on the Toronto Stock Exchange over the first six completed calendar months of the year. Accordingly, since the Company is entitled to purchase up to 25% of the ADTV on any trading day, it can purchase 73,353 common shares per day in addition to block trades in accordance with the Toronto Stock Exchange rules. Since the Company has the financial flexibility required to execute its growth plan, it will use its normal course issuer bid to eliminate the dilutive effect caused by the issuance of common shares when businesses are acquired. The Company believes that the purchase of its common shares represents an effective use of its funds and is in the best interests of the Company and its shareholders. Shareholders may obtain a free copy of the documents filed with the Exchange concerning this bid by writing to the Corporate Secretary of the Company. In the second and third quarter of 2010, the Company repurchased 2,230,067 shares for a total consideration of \$31.6 million in order to avoid dilution caused by the issuance of shares relating to the acquisition of Pierceys.

Cash flow from operations, along with cash available at the beginning of the year, has been used over the period to fund acquisitions, capital expenditures and working capital. As a result, compared to December 27, 2009, net debt was up \$185.4 million. As at December 26, 2010, RONA had \$75.6 million in cash, which will be used over forthcoming quarters to realize various growth projects in Phase 2 of the Company's 2008–2011 strategic plan. RONA also has an undrawn committed credit facility of up to \$650 million.

The Board of Directors established a new dividend policy and announced on December 8, 2010 that a cash dividend is to be payable to holders of RONA's common shares on a semi-annual basis when declared. The first payment, a \$0.07 per share dividend, is payable on March 25, 2011 to holders of record on March 10, 2011. The Board will review the policy from time to time in light of the Company's cash flow, earnings, financial position and other relevant factors.

On February 22, 2011, RONA issued Series 6 Class A Preferred Shares for total gross proceeds of \$150 million. The net proceeds of the offering will be used by RONA to reduce indebtedness, contribute to the funding of future acquisitions, capital projects and for general corporate purposes. This will further strengthen RONA's balance sheet, diversify its sources of financing and increase its financial flexibility in order to continue to execute the Company's

strategic plan. Further details regarding these shares may be found in the Company's press release of February 1, 2011.

The table below presents a synopsis of the Company's contractual obligations as at December 26, 2010, 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 in the table below. The Company has guaranteed mortgages amounting to \$0.7 million. The terms of these loans extend until 2012 and the net carrying amount of the assets held as security, which mainly include land and buildings, is \$5.5 million. 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 61% of the cost of the inventories to a maximum of \$69.8 million. 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 on 30 days' notice. In the opinion of Management, the likelihood that significant payments would be incurred as a result of these commitments is low. Finally, letters of credit for imports totalling \$32.4 million were outstanding as at December 26, 2010 for the purchase of various, mainly seasonal, products.

Contractual obligations by term
(as at December 26, 2010)

Contractual obligations	Payments by term (thousands of dollars)				
	Total	Less than 1 year	1-2 years	3-4 years	5 years and more
Long-term loans	442,391	5,408	20,813	5,252	410,918
Obligations under capital leases	3,680	2,024	1,055	450	151
Operating leases	1,048,806	125,411	224,122	188,909	510,364
Other long-term obligations	26,369	15,719	9,850	800	-
Total	1,521,246	148,562	255,840	195,411	921,433

Outstanding shares
(as at February 11, 2011)

Common shares	130,075,431
Unexercised options	1,964,344
Total	132,039,775

While cash has been used to fund acquisitions and capital expenditures over the past year, RONA's balance sheet has remained strong. On December 26, 2010, the ratio of total net debt to capital was 16.9%, compared to 10.4% as at December 27, 2009. The ratio of equity to assets was 64.6% at the end of 2010, compared to 64.7% as at December 27, 2009.

The Company's operations generate substantial cash flow. With relatively low debt and long-term fixed rates on most of its long-term debt, RONA also has substantial liquidity and can borrow many millions more at competitive rates. Our financial resources are therefore sufficient to pursue disciplined development of our four growth vectors: customer growth, construction of new stores, recruitment of affiliated dealers and acquisitions.

SUMMARY OF QUARTERLY RESULTS

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

related to the retail sector, the seasonal impact of the first quarter has been more pronounced in 2008, 2009 and 2010 than in previous years. The second quarter is always the strongest of the year, followed by the third quarter.

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

	2010				2009				2008*
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales	1,136.6	1,313.7	1,398.2	951.4	1,140.9	1,320.5	1,369.9	846.0	1,124.6
EBITDA	67.6	106.7	134.5	35.3	78.8	105.8	122.9	25.5	75.3
EBITDA (excluding unusual items)	67.6	106.7	134.5	35.3	78.4	111.8	131.1	25.5	76.2
Net earnings (net loss)	22.2	50.2	67.8	3.0	30.9	49.1	60.8	(2.5)	29.8
Net earnings (net loss) (excluding unusual items)	22.2	50.2	67.8	3.0	30.6	53.3	66.5	(2.5)	30.4
Earnings (loss) per share (\$)	0.17	0.38	0.52	0.02	0.24	0.38	0.51	(0.02)	0.26
Earnings (loss) per share (\$) (excluding unusual items)	0.17	0.38	0.52	0.02	0.24	0.41	0.56	(0.02)	0.26
Diluted earnings (loss) per share (\$)	0.17	0.38	0.52	0.02	0.24	0.38	0.51	(0.02)	0.25
Diluted earnings (loss) per share (\$) (excluding unusual items)	0.17	0.38	0.52	0.02	0.23	0.41	0.55	(0.02)	0.26

* Results for 2008 have been restated to reflect the application of Section 3064, "Goodwill and intangible assets", of the Canadian Institute of Chartered Accountants' (CICA) Handbook.

Annual growth in same-store sales
Last nine quarters

Q4-2008*	Q1-2009	Q2-2009	Q3-2009	Q4-2009	Q1-2010	Q2-2010	Q3-2010	Q4-2010
-1.4%	-8.5%	-6.2%	-5.3%	+0.7%	+10.8%	+0.9%	-2.3%	-6.4%

* Same-store sales have been restated for 2008 to reflect sales without adjustment for holidays and materials deflation.

The economic recovery which began in the second half of 2009 continued on through 2010. While there was a surge of economic activity in the first quarter of 2010, the pace of economic growth slowed somewhat over the following three quarters, resulting in positive, but moderate economic growth for the year as a whole.

While the economy recovered, consumer confidence experienced a slide over the course of the year and, in the latter half of the year, there was a slowdown in housing market activity, when compared to 2009. As well, the incentives introduced by various levels of government during 2009 in the form of tax credit programs expired in early 2010.

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

FOURTH QUARTER RESULTS

The results discussed and analyzed in this section are for the 13-week period ended December 26, 2010 and, when compared, are compared to the results for the 13-week period ended December 27, 2009, unless otherwise indicated.

Consolidated sales in fourth quarter 2010 totalled \$1,136.6 million, down \$4.4 million, or 0.4%, the result of a \$16.5 million, or 1.9%, decline in sales for the retail and commercial sector, partly offset by a \$12.1 million, or 4.6%, increase in distribution segment sales. Same-store sales were down 6.4%.

Sales for the retail and commercial segment in 2009 were positively impacted by increasing consumer confidence and renovation tax credit programs which were nearing an end, while in 2010, consumer confidence was on the decline and the government tax credit programs had all expired in the early part of the year. In addition, fourth quarter 2010 housing resales and new starts both experienced double-digit decreases. The decline in sales resulting from these factors more than offset the growth in sales as a result of acquisitions and new store openings. Distribution segment sales were also affected by these same factors, but the impacts were more than offset by the growth generated by the expansion of the affiliated dealer network.

EBITDA amounted to \$67.6 million, a decrease of \$11.3 million, or 14.3%, as the result of a \$9.9 million, or 15.6%, decrease in the retail and commercial segment EBITDA and a \$1.4 million, or 8.9%, decrease in the distribution segment EBITDA. Excluding unusual items, EBITDA was down \$10.9 million, or 13.9%.

The EBITDA margin was down 97 basis points to 5.94% reflecting a 101 basis point decrease for the retail and commercial segment and a 77 basis point decrease for the distribution segment. Excluding unusual items, the EBITDA margin was down 93 basis points.

The decreases in the EBITDA and in the EBITDA margin excluding unusual items were driven by lower sales and increased SG&A expenses resulting from acquisitions, renovations and new construction in the retail and commercial segment as well as by higher shipping costs and a strong increase in the sales of lumber products to affiliated dealers, which was positive for the loyalty rate of their purchases at RONA, but put pressure on the distribution segment's EBITDA margin as the margin on these products is lower than our average margin. The consolidated EBITDA margin was also affected by the acquisitions completed during the year which generated a lower margin than our average margin. This situation will gradually be eliminated as expected synergies are realized.

Net earnings in the fourth quarter of 2010 decreased by \$8.7 million, or 28.1%, to \$22.2 million, or \$0.17 per share (diluted). Net earnings were down due primarily to a decline in EBITDA of \$11.3 million and higher amortization and depreciation charges, partly offset by lower income tax and interest expense. Excluding unusual items recorded in 2009, relating to store closures in the retail and commercial segment, net earnings were down \$8.4 million, or 27.5%.

OUTLOOK

The Company implemented some organizational changes at the end of 2010 in order to help it pull together and leverage all the strengths of RONA's unique business model. The changes entail adopting a more integrated approach for the operation and development of its retail network, along with an increased regional focus designed to better address local market needs. These changes are aimed at optimizing the growth and consolidation of the RONA presence in key urban and regional markets in order to become the leader in each of those target markets.

While economic recovery is underway, the pace is modest and there are still concerns. Lingering economic uncertainty will therefore continue to put pressure on sales and earnings growth over the next quarter particularly in light of the effects of the renovation tax credits and an early spring which drove first quarter 2010 results. However, the underlying fundamentals for the industry are sound:

- Canada's housing market remains relatively strong compared to most other countries;
- there is pent-up demand in the renovation market, arising from an aging housing stock and the postponement of major renovations while homeowners wrestled with credit and debt worries; and
- Canadian interest rates remain low.

When the market does come back, RONA is well positioned to capitalize on it. The Company has:

- greater operational leverage than ever as a result of our PEP Program; and
- a considerably larger and more diversified network than in the past, as a result of successful recruitment, strategic acquisitions, new stores and continued investments in store renovation and relocation.

As 2011 unfolds, the new, integrated structural and regional approach is expected to bring significant benefits. RONA is also poised to grow its distribution and commercial and professional sectors and reduce the cyclical nature of its business by capitalizing on the growing opportunities in these two sectors to consolidate the Canadian market.

The progress made in 2010 — plus the added momentum provided by the many new initiatives and those to come — will enable the Company to resume double-digit bottom line growth and gradually improve its return on capital when market conditions improve, while maintaining an investment-grade credit profile and reducing the cyclical nature of RONA's operations.

SUSTAINABILITY

Sustainable development is a core component of RONA's strategic plan. Key programs have been developed and introduced in response to the Company's objectives. This past year, RONA has undertaken a number of sustainability initiatives dealing with its products, procurement policies, environmental footprint and corporate governance.

RONA first introduced its RONA ECO and eco-responsible products in 2008. This past year, another significant step was taken with the launch of an innovative online Eco-responsible Renovation Guide to help customers make environmentally responsible decisions when undertaking renovation or construction projects. The user-friendly Guide, based on the life-cycle approach, was developed in collaboration with the International Chair in Life Cycle Assessment of École Polytechnique de Montréal, Équiterre and Écohabitation. It is the most comprehensive, user-friendly tool of its type and, in the opinion of one expert, unprecedented in North America.

The life-cycle approach, which evaluates the impact of products and actions globally, is the same approach used to evaluate products and determine if they meet the standards of RONA ECO or eco-responsible products. To be accepted in the RONA ECO line, a product must leave a smaller ecological footprint than equivalent conventional products throughout its entire life cycle. To qualify as eco-responsible, these products must deliver a better environmental performance in one or more stages of their life cycle, whereas RONA ECO products must be superior considering all stages.

In April 2008, RONA rolled out its first eight RONA ECO products, along with 500 eco-responsible products. From those modest beginnings, the program has continued to grow, spurred on by the enthusiastic reception of consumers across Canada. RONA stores now offer some 450 RONA ECO products, ranging from cleansers to fertilizers, rainwater collectors, mouldings and much more, as well as more than 1,700 eco-responsible products.

With respect to purchasing practices, this past November, RONA introduced its new Responsible Procurement Policy (RPP). This policy encompasses the specific procurement policies already introduced by the Company for certain products, including the wood products procurement policy and the policy ending sales of synthetic cosmetic pesticides. This new policy is an update of the Responsible Buying Code introduced in 2002. The RONA RPP deals with all products and services sold in its stores, as well as goods and services used by the company.

Under the new policy, RONA's goal is to ensure that products sold by the Company:

- Have the least possible impact on the environment
- Are the result of the labour of workers whose rights are respected
- Contribute to social and economic development locally and regionally in Canada.

In order to thoroughly cover the issues relating to responsible procurement, RONA articulated the development of its policy in terms of rigorously identified principles based on analysis of best practices around the world and in consultation with recognized stakeholders. These stakeholders included ethical investment funds, special interest groups and experts specializing in the social and environmental sectors, as well as suppliers.

This past November, RONA issued a progress report for its wood products procurement policy, launched in fall 2008 and designed to help protect our forests and encourage consumers to buy wood from forests that have been sustainably and responsibly managed.

Under its wood products procurement policy, based on precise and measurable objectives which have been rigorously defined after consultation with various stakeholders, RONA has made a formal commitment to encourage responsible forest management through its purchasing practices. To this end, RONA has multiplied its efforts over the last two years to meet the objectives stated as part of the policy and, in some cases, achieved them as much as two years ahead of schedule. As a result, in RONA's corporate retail and franchise stores:

- 100% of the softwood lumber (spruce, pine and fir) and softwood plywood panel products for sale is sourced from certified forests;
- 30% of wood products available in RONA's retail corporate stores carry a certification label; and
- 25% of SPF lumber for sale in corporate and franchise stores will be sourced from FSC (Forest Stewardship Council) certified forests, an objective planned to be met by the end of 2012 and reached two years ahead of schedule.

RONA has also received FSC certification from Rainforest Alliance for the Chain of Custody of wood products in ten of its stores and three distribution centres. RONA is the largest hardware company in America to have obtained the FSC certification to date.

In addition to these achievements, six RONA stores now offer softwood lumber sourced exclusively from FSC certified forests. It should be noted that wood sourced from FSC certified forests is not widely available in Canada and that RONA intends to make it easier for consumers to have access to such products.

With respect to its own environmental footprint, RONA has been taking a pro-active approach to waste management, one that is designed to divert waste material generated by its operations from landfills. In addition to the environmental benefits, it brings the Company financial benefits in terms of cost avoidance and revenues from recovered materials. In October 2010, following the success of a pilot project, RONA announced a series of initiatives to reduce the environmental footprint of its stores, focusing on energy efficiency and waste management, including a zero waste initiative. The Company is actively pushing new programs throughout the organization with the intention of taking a leadership role in protecting the environment.

These various initiatives deal with a number of the many different elements of sustainable development and illustrates the Company's commitment to making sustainable development an integral part of RONA's strategic plan.

Strong corporate governance is also key in building sustainability. The Board has adopted a new pro-active policy that includes publishing an overview of its governance and compensation policies on the [Company's web site](#) and proactively communicating to stakeholders any significant changes. As well, means will be made available to stakeholders enabling them to submit to the Board any recommendations or suggestions for improvements to the Company's governance and compensation practices.

RISKS AND UNCERTAINTIES

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

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

Market and competition

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

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

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

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

The economy

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

As explained, economic conditions have an impact on RONA's results. While economic recovery is underway, 2010 saw a decline in consumer confidence over the year, as well as a slowdown in housing activity when compared to 2009, both in the new starts and resale markets. However, RONA has a tightly managed balance sheet, a diversified business model, and improved operational efficiency as a result of the PEP program implementation. As it has done in the past, management is taking proactive steps in response to the current economic conditions.

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

Human resources

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

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

Information technology

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

Reputation

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

Supply chain

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

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

Acquisition / Recruitment / Integration / Development

Acquisitions and recruitment are two of the four vectors of RONA's development strategy. While the Company wants to recruit or make acquisitions, nothing guarantees the availability of businesses that meet its rigorous selection criteria. RONA's goal is to quickly integrate and build loyalty in all acquired and recruited businesses to achieve the expected benefits. RONA's desire to expand may also be hampered by an inability to find locations appropriate for development.

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 position and financial results.

Accounting standards

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

Availability of financing

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

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

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

CHANGES IN ACCOUNTING POLICIES

No major change has occurred since the publication of the *Annual Management's Discussion and Analysis for the year ended December 27, 2009*.

NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

International Financial Reporting Standards (IFRS)

In 2009, the Accounting Standards Board of Canada (AcSB) confirmed that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS, which will go into effect during 2011. IFRS use a conceptual framework similar to that of Canadian GAAP, but include major differences with respect to recognition, measurement, presentation and disclosure.

For the Company, conversion to IFRS will be required for financial statements for periods beginning on December 27, 2010. Comparative data will be restated to comply with IFRS. As a result, the Company has developed an IFRS conversion plan that focuses on the key areas of impact, including financial reporting, company operations, systems and processes, internal controls, communications and training. The plan includes the following four phases: 1 – Preliminary Diagnosis, Planning and Definition of the Scope, 2 – Detailed Evaluation, 3 – Definition of the Solution and 4 – Implementation.

As expected, the Company has substantially completed its conversion plan and is in the process of preparing the Consolidated annual financial statements as at December 26, 2010 under IFRS.

The table below provides a summary of the main activities and the completion status of the Company's conversion plan.

Main activities	Completion status
Financial reporting	
- Identify differences between IFRS and the Company's current accounting policies, choose IFRS accounting policies and analyse the impact on the Company's financial statements. - Analyse and choose the IFRS 1 exemptions to retain on changeover to IFRS. - Prepare the opening balance sheet, the transition note, and the model IFRS financial statements. - Prepare interim 2010 financial statements under IFRS. - Prepare an accounting policy and procedures manual.	- Complete. - Complete. - The opening balance sheet for internal use was prepared during the second quarter of 2010 and presented to the Audit Committee on August 10, 2010. The model financial statements were prepared during the third quarter and presented to the Audit Committee on November 9, 2010. - Preliminary versions of the interim Consolidated statement of income and financial position (Balance Sheet) have been prepared for the first three quarters of 2010 and presented to the Audit Committee. - An accounting policy and procedures manual is being reviewed.
Company operations	
- Review major contracts, particularly those related to financing, to ensure certain covenants are met after the transition to IFRS. - Verify the impact of changes on compensation programs.	- Complete – no major impacts. - Complete – no impact on the calculation of amounts to be granted under short-term and long-term compensation programs.
Systems and processes	
Identify changes required in the Company's information systems and processes.	The required adjustments to systems and processes have been implemented. The Company is using its consolidation system and manual processes to produce two sets of parallel financial statements for 2010.
Internal controls	
- For all changes in accounting policies and procedures, evaluate internal controls related to financial information and communications controls and procedures from the standpoint of design and effectiveness. - Implement required changes over the course of 2010.	- The proposed changes to accounting policies have been approved by management and presented to the Audit Committee. - The required changes to internal controls were identified and implemented. - Tests of effectiveness for the controls were carried out in fiscal year 2010 and will continue in 2011. Special attention will be given to controls related to major changes in accounting policies, new processes or systems, and those specific to the transition period.
Communications and training	
- Train employees who participate in the task forces. - Raise awareness among accounting staff of the changes ahead. - Train employees affected by changes in policies and procedures. - Inform members of the Company's Management Committee of the impacts of the transition to IFRS.	- Complete - Controllers of the subsidiaries have been informed of the changes ahead. - Specific training has been given to these employees. - The Management Committee was informed of the major changes in accounting policies.

Possible effects of implementation

The differences between IFRS and Canadian standards that affect RONA have been quantified based on IFRS in effect as at January 1, 2011. However, the accounting methods selected by management and their application may require adjustments before the publication of the annual financial statements for 2011 to reflect the impact of one or more of the following items: (i) the evaluation of financial reporting requirements as a result of new or revised standards issued by the International Accounting Standards Board (IASB) (ii) modification of accounting methods selected by management. In addition, the impacts outlined below have not all as yet been audited and other differences could arise.

IFRS 1, First-time Adoption of International Financial Reporting Standards, provides for optional exemptions and mandatory exceptions to the general requirement of full retrospective application of IFRS. The Company has analysed the various possible accounting methods and will implement those considered most suitable.

The table below summarizes the main IFRS 1 exemptions that the Company intends to use at transition:

Area of application	Summary of exemptions
Business Combinations	Possible choice: The Company can choose not to apply IFRS 3, Business Combinations, retrospectively at the date of changeover or at an earlier date of its choosing. RONA's choice: IFRS 3 will be applied as of the date of transition, which is December 28, 2009, so no impact is anticipated at the transition date.
Share-based Payment	Possible choice: IFRS 2, Share-based Payment, applies without exemption to equity instruments granted after November 7, 2002, that will be vested after the transition date. The Company can choose to apply IFRS 2 retrospectively to equity instruments granted before November 7, 2002, or to all those vested at the transition date. RONA's choice: The Company has elected to apply IFRS 2 only to grants after November 7, 2002, that will be vested after the transition date.
Employee benefits	Possible choice: The Company can choose to recognize all unamortized actuarial gains and losses in retained earnings at the transition date. RONA's choice: The Company intends to use this exemption. The defined benefit asset will therefore be reduced by \$10.2 million.
Borrowing costs	Possible choice: The Company can capitalize borrowing costs incurred during the construction of eligible assets as of the transition date or as of an earlier date of its choosing. RONA's choice: The Company intends to use this exemption and derecognize interest capitalized before the transition date. Consequently, the carrying value of land and buildings will be reduced by \$18.3 million and the carrying value of certain intangible assets will be reduced by \$2.0 million.

The table below presents the main differences between the Canadian GAAP and International Financial Reporting Standards that have a major impact on the Company's Consolidated financial statements, and the resulting adjustments on changeover to IFRS. Most of the adjustments required for the transition to IFRS will be applied retrospectively to opening retained earnings at the date of the first statement of Consolidated financial position (balance sheet) prepared under IFRS.

IFRS standard	Impact of adoption
IFRS 3 – Business Combinations	Possible choice of accounting policy: Non-controlling interest may be measured: a) at fair value or b) at the proportionate share of the acquiree's net identifiable assets. RONA's choice: Proportionate share of the acquiree's net identifiable assets. Consequently, the Company does not anticipate any impact in this regard. Difference impacting RONA: IFRS 3 requires that transaction costs on business acquisitions be expensed as incurred. Under Section 1581, Business combinations, of the Canadian GAAP currently applied by the Company, the direct costs related to acquisitions are included in the capitalizable costs of the transaction. Anticipated impact at transition: None. Anticipated future impact: The impact on income will change based on the number and size of acquisitions. For the thirty-nine-week period ended September 26, 2010, the impact on net income is a reduction of \$1.3 million.
IAS 31 – Interests in Joint Ventures	Possible choice of accounting policy: Method of recognizing interests in jointly controlled entities: a) proportionate consolidation or b) equity method of accounting. RONA's choice: proportionate consolidation. Anticipated impact at transition: None Anticipated future impact: None
IAS 16 – Property, Plant and Equipment	Possible choice of accounting policy: Evaluation method: a) cost model or b) revaluation model. RONA's choice: cost model Differences impacting RONA: 1) Under IAS 16, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately. The Company will adopt component accounting for its buildings at the date of transition to IFRS. 2) Certain costs incurred prior to management's decision to acquire a site as well as certain operating costs subsequent to the acquisition but prior to the development period do not meet the conditions for recognition as an asset. 3) Under IAS 16, depreciation begins when the asset is available for use whereas under Canadian GAAP depreciation commences when the asset is utilized by the Company. Anticipated impact at transition: 1) Component accounting for buildings will increase their undepreciated carrying values by \$1.0 million. 2) Costs incurred prior to acquisition decisions as well as certain operating costs subsequent to the acquisition but prior to the development period will be derecognized which will reduce the value of property, plant and equipment by \$10.7 million and fixed assets held for sale by \$1.2 million. 3) Property, plant and equipment will be reduced by \$2.5 million as a result of depreciation commencing at an earlier date. Anticipated future impact: The annual depreciation charge for buildings will be reduced and costs incurred prior to acquiring land and operating costs subsequent to the acquisition but prior to the development period will be expensed. For the thirty-nine-week period ended September 26, 2010, the net impact of these differences is a reduction of \$2.0 million in net income.

IFRS standard	Impact of adoption (continued)
IAS 17 – Leases	Possible choice of accounting policy: None Difference impacting RONA: IAS 17 indicates that for sale and leaseback transactions at fair value, which result in an operating lease contract for the lessee, all gains must be immediately recorded in income. Under Section 3065, Leases, of Canadian GAAP, a gain from a sale was deferred and recorded in income over the duration of the lease. Anticipated impact at transition: The deferred gain as at December 28, 2009 of \$11.3 million, recorded in other liabilities, will be reversed to retained earnings along with the deferred costs of the sale and leaseback transaction recorded in other assets in the amount of \$2.6 million. Anticipated future impact: The Company's before-tax results will be reduced by \$0.9 million annually until 2020.
IAS 39 – Financial Instruments: Recognition and Measurement	Possible choice of accounting policy: None Difference impacting RONA: Under IAS 39, a foreign currency derivative embedded in a purchase contract that provides for payments in a relatively stable, liquid currency that is routinely used for external trade in the country where the transaction takes place cannot be accounted for separately. Under Section 3855, Financial Instruments – Recognition and Measurement, entities could choose to account for embedded derivatives separately. In 2007, when Section 3855 came into effect, RONA elected to account separately for derivatives embedded in purchase orders. Anticipated impact at transition: Embedded derivatives related to purchase orders from Asia amounting to \$0.8 million will be reversed to retained earnings and inventory will be reduced by \$0.5 million. Anticipated future impact: In early 2010, to recognize the changes in the fair value of forward exchange contracts in the same accounting period as the currency gains and losses related to disbursements, the Company introduced a cash flow hedge accounting strategy for IFRS purposes only. For the thirty-nine-week period ended September 26, 2010 the non-recurring impact is an increase in net income of \$0.8 million.
IAS 19– Employee Benefits	Possible choice of accounting policy: Actuarial gains or losses can be accounted for as follows: a) recognition in income of a portion of the excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligations and the fair value of plan assets through amortization over the average remaining service period of the active employees (the “corridor approach”); b) recognized immediately in income or c) recognized immediately in comprehensive income without subsequent reversal to income. RONA's choice: The Company will use the corridor approach, which is the method currently used in compliance with Canadian GAAP. Anticipated impact at transition: None due to the choice of policy. The impact at transition can be attributed to the application of the IFRS 1 exemption discussed earlier. Anticipated future impact: The impact on the 2010 results has not yet been determined.
IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Possible choice of accounting policy: None Differences impacting RONA: 1) Under IFRIC 14, an entity cannot recognize a defined benefit asset if it does not have an unconditional right to the surplus in the event of the closure of the plan, for example, and if it does not have the right to reduce future contributions. 2) If an entity is obliged to pay contributions to cover an existing deficit relating to past services and it does not have the unconditional right to the surplus, the entity must record a liability when the obligation arises. Anticipated impact at transition: A total of \$1.4 million will be reversed from the defined benefit asset and an additional liability of \$6.3 million, equivalent to the minimum funding obligation, will be recorded for the plans affected by IFRIC 14. Anticipated future impact: The amount of the minimum funding liability will have to be adjusted each year and the difference recorded in income. The impact on the 2010 results has not yet been determined.

IFRS standard	Impact of adoption (continued)
IAS 36 – Impairment of Assets	Possible choice of accounting policy: None Differences impacting RONA: 1) For long-term finite-life assets, IFRS require a one-step impairment test to be carried out by comparing the carrying value of an asset with the higher of the value in use (i.e. discounted forecast cash flow) and the fair value less costs to sell. Under Canadian GAAP, impairment is based on discounted cash flows only if the non-discounted cash flows are lower than the carrying value. 2) Previously recognized impairment losses are reversed when a change of situation indicates that the impairment has been reduced, other than for goodwill and intangible assets with indefinite lives. Anticipated impact at transition: The property, plant and equipment associated with two stores will be written down by a total of \$4.8 million at the transition date because of the need to discount projected cash flows. Anticipated future impact: The IFRS one-step impairment test may lead to more frequent impairment losses or loss reversals.
IAS 37- Provisions, Contingent Liabilities and Contingent Assets	Possible choice of accounting policy: None Differences impacting RONA: Under IAS 37, an amount recognized as a provision must be the best estimate of the expense required to extinguish the obligation existing at the end of each financial reporting period. Under Canadian GAAP, when the provision relates to the termination of an operating lease, the fair value of the obligation must not be revised if the sublease rental assumptions do not materialise. The difference between the amount of the provision and the actual net expense must be recorded in income. Anticipated future impact: For the thirty-nine-week period ended September 26, 2010 the non-recurring impact is a reduction in net income of \$1.4 million.

In conclusion, preparations for the transition to IFRS are advancing rapidly and according to plan. A number of adjustments to the financial statements are foreseen as soon as IFRS are adopted. According to the results to date, the Company is confident that the transition will meet all requirements.

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 economic context in its assessment of significant accounting estimates. The significant estimates are: accounts receivable and inventory valuation, volume rebates, long-term assets, goodwill and trademarks with indefinite lives, income taxes and employee future benefits.

Accounts receivable

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.

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 based on 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 trademarks with indefinite lives

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.

Trademarks with indefinite lives 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 its fair value.

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.

DISCLOSURE OF FINANCIAL INFORMATION

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

DISCLOSURE CONTROLS AND PROCEDURES

RONA has evaluated its disclosure controls and procedures in accordance with the MI 52-109 guidelines. On December 26, 2010, the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer concluded that the Company's disclosure controls and procedures are properly designed and effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

RONA has evaluated the effectiveness of internal control over financial reporting as at December 26, 2010 in accordance with the MI 52-109 guidelines. This evaluation has allowed the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer to conclude that the Company's internal control over financial reporting is effective and provides reasonable assurance that the Company's financial reporting is reliable and that its consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

In addition, during the year ended December 26, 2010, 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

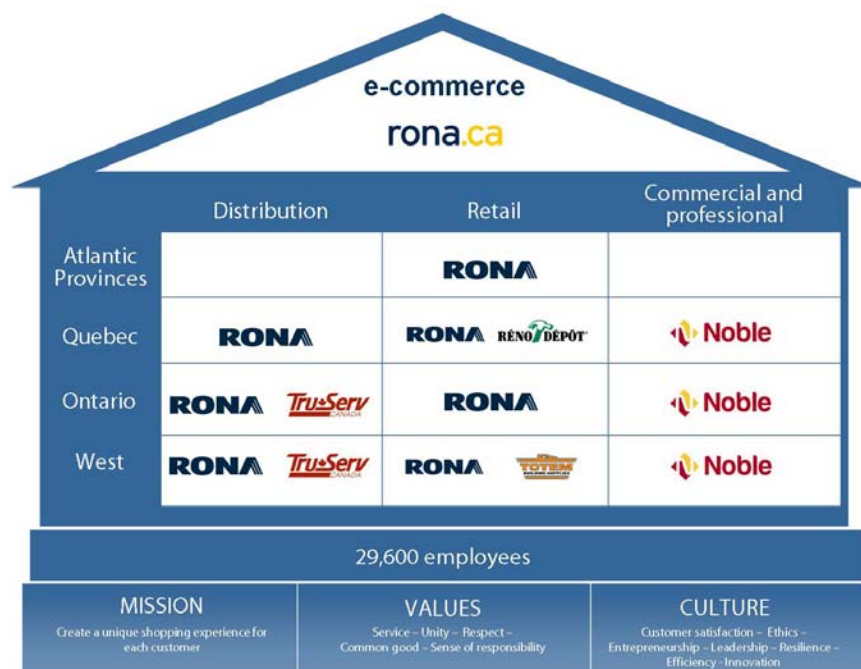
This MD&A includes “forward-looking statements” that involve risks and uncertainties. All statements other than statements of historical facts included in this MD&A, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the Company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

Investors and others are cautioned that undue reliance should not be placed on any forward-looking statements. For more information on the risks, uncertainties and assumptions that would cause the Company’s actual results to differ from current expectations please 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 24, 2011, 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.

THREE COMPLEMENTARY SECTORS OF ACTIVITY

RONA is focused on three complementary sectors of activity in the hardware, renovation and construction marketplace: distribution, retail and commercial and professional. The combined annualized retail sales of these three sectors represent \$6.6 billion.



FINANCIAL HIGHLIGHTS – LAST TEN YEARS

(in millions of dollars, except figures relating to earnings per share, shares and percentages)

	2010	2009	2008	2007	2006*	2005	2004	2003	2002	2001
Results of operations										
Sales	4,799.9	4,677.4	4,891.1	4,785.1	4,551.9	4,026.4	3,625.9	2,666.2	2,293.3	1,800.4
Percentage increase	2.6%	-4.4%	2.2%	5.1%	13.1%	11.0%	36.0%	16.3%	27.4%	39.7%
Operating income (EBITDA)	344.0	333.0	364.7	383.8	372.4	326.1	269.5	172.4	127.4	85.1
Operating income (excluding unusual items)	344.0	346.8	377.0	383.8	372.4	326.1	269.5	172.4	127.4	85.1
Net earnings	143.2	138.3	156.5	178.6	187.1	172.7	134.4	77.5	45.9	24.2
Earnings per share**	1.10	1.12	1.35	1.55	1.63	1.51	1.18	0.73	0.60	0.37
Diluted earnings per share**	1.09	1.11	1.34	1.53	1.61	1.49	1.16	0.72	0.57	0.35
Net earnings (excluding unusual items)	143.2	147.8	167.5	178.6	187.1	172.7	134.4	77.5	45.9	24.2
Earnings per share (excluding unusual items)**	1.10	1.20	1.45	1.55	1.63	1.51	1.18	0.73	0.60	0.37
Diluted earnings per share (excluding unusual items)**	1.09	1.19	1.44	1.53	1.61	1.49	1.16	0.72	0.57	0.35
Common shares										
Outstanding** (in millions)	130.1	129.7	115.8	115.4	114.9	114.4	114.0	113.6	95.2	73.7
Cash flows from operating activities before changes in working capital items										
	272.1	258.5	264.1	269.8	271.8	231.3	170.4	106.4	81.5	49.9
Changes in working capital items	-148.0	24.3	83.4	-1.5	3.8	-75.6	-72.0	5.1	0.4	12.7
Cash flows from operating activities	124.1	282.8	347.5	268.3	275.6	155.7	98.4	111.5	81.9	62.6
Financial structure										
Total assets	2,975.1	2,749.9	2,478.9	2,459.1	2,090.8	1,654.9	1,327.1	1,258.1	763.3	736.3
Shareholders' equity	1,921.6	1,779.0	1,468.2	1,306.3	1,121.9	927.1	746.2	607.6	383.4	206.8
Long-term debt	465.5	440.5	494.2	636.8	484.8	242.1	148.6	266.9	120.1	305.9

* Fiscal 2006 had 53 weeks.

** Figures per share reflect a two-for-one split in March 2005.

Note: The comparative sales figures have been restated to reflect the application of EIC-156, "Accounting by a Vendor for consideration given to a customer" (volume rebates).

Note: The financial highlights for 2001 to 2008 have been restated to reflect the application of Section 3064, "Goodwill and intangible assets" of the Canadian Institute of Chartered Accountants' (CICA) Handbook.

ADDITIONAL INFORMATION

This MD&A was prepared on February 24, 2011. 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 (signed)

Claude Guévin, CA
Executive Vice President and
Chief Financial Officer

Robert Dutton (signed)

Robert Dutton
President and
Chief Executive Officer



Consolidated Financial Statements

December 26, 2010 and December 27, 2009

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MANAGEMENT'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

Management is fully accountable for the consolidated financial statements of RONA inc. as well as the financial information contained in the Management's Discussion and Analysis. This responsibility is based on a judicious choice of appropriate accounting principles and methods, the application of which requires making estimates and informed judgments. It also includes ensuring that the financial information in the Management's Discussion and Analysis is consistent with the consolidated financial statements. These consolidated financial statements were prepared in accordance with Canadian generally accepted accounting principles and were approved by the Board of Directors.

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

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

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



Robert Dutton
President and Chief Executive Officer



Claude Guévin CA
Executive Vice President and Chief Financial Officer

Boucherville, February 23, 2011

Independent Auditor's Report

Raymond Chabot Grant Thornton LLP
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To the Shareholders of
RONA inc.

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We have audited the accompanying consolidated financial statements of RONA inc., which comprise the consolidated balance sheets as at December 26, 2010 and December 27, 2009 and the consolidated statements of earnings and comprehensive income, retained earnings, contributed surplus and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of RONA inc. as at December 26, 2010 and December 27, 2009 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton LLP¹

Montréal
February 23, 2011

¹ Chartered accountant auditor permit no. 21290

RONA inc.

Consolidated Earnings and Comprehensive Income

Years ended December 26, 2010 and December 27, 2009

(In thousands of dollars, except earnings per share)

	2010	2009
Sales	\$ 4,799,865	\$ 4,677,359
Earnings before the following items	344,027	332,994
Interest on long-term debt	20,226	20,951
Interest on bank loans	2,295	2,586
Depreciation and amortization (Notes 10,12,13)	110,902	103,160
	133,423	126,697
Earnings before income taxes and non-controlling interest	210,604	206,297
Income taxes (Note 5)	61,918	62,714
Earnings before non-controlling interest	148,686	143,583
Non-controlling interest	5,465	5,331
Net earnings and comprehensive income	\$ 143,221	\$ 138,252
Net earnings per share (Note 25)		
Basic	\$ 1.10	\$ 1.12
Diluted	\$ 1.09	\$ 1.11

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

RONA inc.

Consolidated Retained Earnings

Consolidated Contributed Surplus

Years ended December 26, 2010 and December 27, 2009

(In thousands of dollars)

	2010	2009
Consolidated Retained Earnings		
Balance, beginning of year	\$ 1,161,808	\$ 1,028,876
Net earnings	143,221	138,252
Expenses relating to the issue of common shares, net of income tax recovery of \$2,042	–	(5,320)
Excess of purchase price over the stated value of repurchased common shares and related contributed surplus (Note 18)	(17,666)	–
Dividends declared on common shares (Note 20)	(9,119)	–
Balance, end of year	\$ 1,278,244	\$ 1,161,808
Consolidated Contributed Surplus		
Balance, beginning of year	\$ 13,475	\$ 12,563
Compensation cost relating to stock option plans	1,214	946
Repurchase of common shares – normal course issuer bid (Note 18)	(3,153)	–
Exercise of stock options	(62)	(34)
Balance, end of year	\$ 11,474	\$ 13,475

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

RONA inc.

Consolidated Cash Flows

Years ended December 26, 2010 and December 27, 2009

(In thousands of dollars)

	2010	2009
Operating activities		
Net earnings	\$ 143,221	\$ 138,252
Non-cash items		
Depreciation and amortization	110,902	103,160
Change in fair value of derivative financial instruments	(30)	462
Future income taxes	12,632	9,225
Net gain on disposal of assets	(2,921)	(2,358)
Impairment charge on fixed assets held for sale	–	2,050
Stock-based compensation	4,588	3,503
Difference between amounts paid for employee future benefits and current period cost	(2,744)	(3,088)
Non-controlling interest	5,465	5,331
Other items	1,043	1,975
	272,156	258,512
Changes in working capital items (Note 6)	(148,010)	24,262
Cash flows from operating activities	124,146	282,774
Investing activities		
Business acquisitions (Note 7)	(80,275)	(3,734)
Other investments	(2,533)	(3,990)
Fixed assets	(111,873)	(114,103)
Intangible assets	(37,709)	(47,796)
Other assets	(4,365)	(4,837)
Disposal of fixed assets	4,950	6,291
Disposal of investments	10,031	2,422
Cash flows from investing activities	(221,774)	(165,747)
Financing activities		
Bank loans and revolving credit	(7,172)	(43,046)
Other long-term debt	1,899	646
Repayment of other long-term debt and redemption of preferred shares	(30,433)	(15,819)
Issue of common shares	3,713	176,936
Cash dividends paid by a subsidiary to non-controlling interest	(2,450)	(1,470)
Expenses relating to the issue of common shares	–	(7,362)
Repurchase of common shares	(31,609)	–
Cash flows from financing activities	(66,052)	109,885
Net increase (decrease) in cash	(163,680)	226,912
Cash, beginning of year	239,257	12,345
Cash, end of year	\$ 75,577	\$ 239,257
Supplementary information		
Interest paid	\$ 23,171	\$ 25,493
Income taxes paid	\$ 43,270	\$ 49,450

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

RONA inc.

Consolidated Balance Sheets

December 26, 2010 and December 27, 2009

(In thousands of dollars)

	2010	2009
Assets		
Current assets		
Cash	\$ 75,577	\$ 239,257
Accounts receivable (Note 8)	303,836	250,845
Income taxes receivable	–	2,436
Inventory (Note 4)	905,467	726,262
Prepaid expenses	17,955	18,114
Derivative financial instruments (Note 21)	1,905	801
Future income taxes (Note 5)	12,869	15,914
	<u>1,317,609</u>	<u>1,253,629</u>
Investments (Note 9)	10,488	11,978
Fixed assets (Note 10)	918,273	861,302
Fixed assets held for sale (Note 11)	20,177	13,242
Goodwill	531,675	455,572
Intangible assets (Note 12)	118,747	96,885
Other assets (Note 13)	31,043	29,682
Future income taxes (Note 5)	27,065	27,593
	<u>\$ 2,975,077</u>	<u>\$ 2,749,883</u>
Liabilities		
Current liabilities		
Bank loans (Note 14)	\$ 1,943	\$ 5,211
Accounts payable and accrued liabilities	462,351	427,817
Dividends payable	9,119	–
Income taxes payable	3,634	–
Derivative financial instruments (Note 21)	1,653	776
Future income taxes (Note 5)	3,691	4,900
Instalments on long-term debt (Note 15)	21,151	9,996
	<u>503,542</u>	<u>448,700</u>
Long-term debt (Note 15)	444,333	430,524
Other long-term liabilities (Note 16)	33,121	31,317
Future income taxes (Note 5)	36,551	27,542
Non-controlling interest	35,920	32,761
	<u>1,053,467</u>	<u>970,844</u>
Shareholders' equity		
Capital stock (Note 18)	631,892	603,756
Retained earnings	1,278,244	1,161,808
Contributed surplus	11,474	13,475
	<u>1,921,610</u>	<u>1,779,039</u>
	<u>\$ 2,975,077</u>	<u>\$ 2,749,883</u>

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

1. Governing statutes and nature of operations

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

2. Effect of new accounting standards not yet implemented

International financial reporting standards (IFRS)

In 2009, the Accounting Standards Board of Canada confirmed that Canadian GAAP for publicly accountable enterprises would be replaced by IFRS, which will go into effect during 2011. When converting from Canadian GAAP to IFRS, the Company will prepare both current and comparative information using IFRS. This transition will have an impact on accounting policies, financial reporting and information systems.

3. Summary of significant 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, goodwill, other long-term assets, 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. Interest relating to receivables and loans and advances is recorded monthly in accordance with contractual provisions.

Inventory valuation

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

3. Summary of significant accounting policies (continued)

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.

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

Customer rebates

The Company records cash consideration paid to customers as a reduction in the selling price of the product and classifies it as a reduction to sales in the consolidated statement of earnings.

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%
Leasehold improvements	5% to 33%
Furniture and equipment	10% to 30%
Computer hardware	10% to 33%

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.

RONA inc.

Notes to Consolidated Financial Statements

December 26, 2010 and December 27, 2009

(In thousands of dollars, except amounts per share)

3. Summary of significant accounting policies (continued)

Intangible assets

Software, trademarks with definite lives, customer relationships and preferential price leases are recorded at cost. Trademarks are amortized on a straight-line basis over periods ranging from five to seven years and software is amortized on a straight-line basis over periods ranging from four to ten years. Customer relationships are amortized on a straight-line basis over a period of ten years. Preferential price leases are amortized on a straight-line basis over the term of the lease. The amortization method and estimate of useful life are reviewed annually.

Trademarks with indefinite lives are 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 its fair value.

Goodwill

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 values of the Company's reporting units with their carrying amounts. 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.

Other assets

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 a sale and leaseback agreement are amortized over the lease term using the straight-line method.

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

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.

3. Summary of significant accounting policies (continued)

Stock option plans

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

Share unit plan for officers

The Company offers a restricted share unit plan (RSU) to officers and key employees of the Company. The RSUs are vested over a maximum term of three years based on performance targets. The RSUs are recognized as a compensation expense on a straight-line basis over the vesting period based on the forecasted attainment of targets. The RSUs are revalued at fair value at the end of each reporting period until the vesting date using the market price of the Company's common shares. Fair value changes are accounted for as compensation expense with a corresponding charge to accounts payable and accrued liabilities.

Share unit plan for directors

Members of the Company's Board of Directors, who are not Company's management, may elect to receive all or a portion of their annual fees in the form of deferred share units (DSUs). The DSU compensation liability is accounted for based on the number of units outstanding and the market value of the Company's common shares. Fair value changes are accounted for as compensation expense with a corresponding charge to accounts payable and accrued liabilities.

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.

RONA inc.

Notes to Consolidated Financial Statements

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(In thousands of dollars, except amounts per share)

3. Summary of significant accounting policies (continued)

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 and loans and advances (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 loans and advances are recognized at amortized cost using the effective interest method;
- Bank loans and accounts payable and accrued liabilities are classified as “other financial liabilities”. They are initially measured at fair value and subsequent revaluations are recognized at amortized cost using the effective interest method;
- Long-term debt is classified as “other financial liabilities” and is measured at amortized cost based on the effective interest method;
- 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 “assets or 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;
- 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.

3. Summary of significant 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 the 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 obligations. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligations 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 (12 years as at December 27, 2009);
- 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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(In thousands of dollars, except amounts per share)

3. Summary of significant accounting policies (continued)

Fiscal year

The Company's fiscal year ends on the last Sunday of December. The fiscal years ended December 26, 2010 and December 27, 2009 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 year ended December 26, 2010, an amount of \$3,467,970 of inventory was expensed in the consolidated results (\$3,397,928 in 2009). This amount includes an inventory write-down charge of \$24,995 (\$35,986 in 2009).

5. Income taxes

	2010	2009
Current	\$ 49,015	\$ 53,489
Future	12,903	9,225
	<u>\$ 61,918</u>	<u>\$ 62,714</u>

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

	2010	2009
Combined statutory income tax rate in Canada ^(a)	30.0 %	30.6 %
Non-deductible costs	0.1	0.3
Other	(0.7)	(0.5)
Effective income tax rate	<u>29.4 %</u>	<u>30.4 %</u>

(a) The combined statutory income tax rate of the Company includes related provincial income tax rates.

RONA inc.
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(In thousands of dollars, except amounts per share)

5. Income taxes (continued)

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

	2010	2009
Future income tax assets		
Current		
Non-capital loss carry-forwards	\$ 864	\$ 1,257
Direct costs related to business acquisitions	81	338
Provisions not deducted and other	11,924	14,319
	<u>\$ 12,869</u>	<u>\$ 15,914</u>
Long-term		
Non-capital loss carry-forwards	\$ 8,339	\$ 8,850
Fixed assets	7,783	7,082
Deferred gain on sale and leaseback transaction	2,709	3,179
Goodwill	701	948
Expenses relating to the issue of common shares	1,216	1,633
Deferred revenue and other	6,317	5,901
	<u>\$ 27,065</u>	<u>\$ 27,593</u>
Future income tax liabilities		
Current		
Incentive payments received	\$ 1,638	\$ 2,408
Other	2,053	2,492
	<u>\$ 3,691</u>	<u>\$ 4,900</u>
Long-term		
Fixed assets	\$ 20,746	\$ 13,853
Goodwill	9,928	7,524
Pension plans	3,931	3,276
Other	1,946	2,889
	<u>\$ 36,551</u>	<u>\$ 27,542</u>

RONA inc.
Notes to Consolidated Financial Statements
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(In thousands of dollars, except amounts per share)

6. Cash flow information

The changes in working capital items are detailed as follows:

	2010	2009
Accounts receivable	\$ (3,203)	\$ (14,777)
Inventory	(121,748)	38,155
Prepaid expenses	3,004	(6,912)
Derivative financial instruments	(197)	(1,578)
Accounts payable and accrued liabilities	(31,881)	5,335
Income taxes payable	6,015	4,039
	<u>\$ (148,010)</u>	<u>\$ 24,262</u>

7. Business acquisitions

During 2010, the Company acquired nine companies (one company in 2009), operating in the retail and commercial segment, by way of share or asset purchases and one company operating in the distribution segment by way of share purchase. Taking direct acquisition costs into account, these acquisitions were for a total consideration of \$136,480 (\$3,734 in 2009). The Company financed these acquisitions by an offering of RONA's treasury stock or 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 these acquisitions was established as follows:

	2010	2009
Accounts receivable	\$ 50,567	\$ 1,125
Inventory	60,511	1,177
Other current assets	3,840	61
Investments	1,959	—
Fixed assets	34,386	105
Goodwill	76,621	1,266
Intangible assets	5,481	—
Long-term future income tax assets	849	—
Bank loans	(4,350)	—
Accounts payable and accrued liabilities	(60,497)	—
Other current liabilities	(1,312)	—
Long-term debt	(31,513)	—
Long-term future income tax liabilities	(62)	—
	<u>136,480</u>	<u>3,734</u>
Less: Issuance of common shares	(35,000)	—
Accrued direct acquisition costs	(636)	—
Balances of purchase prices	(20,569)	—
Cash consideration paid	<u>\$ 80,275</u>	<u>\$ 3,734</u>

The Company expects that an amount of \$8,590 (\$944 in 2009) of goodwill will be deductible for tax purposes.

RONA inc.
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(In thousands of dollars, except amounts per share)

8. Accounts receivable

	2010	2009
Trade accounts		
Retail and commercial customers	\$ 219,342	\$ 161,879
Affiliated and franchised stores	76,484	73,963
Joint ventures	3,711	5,475
Other accounts receivable	2,054	6,884
Portion of investments receivable within one year	2,245	2,644
	<u>\$ 303,836</u>	<u>\$ 250,845</u>

9. Investments

	2010	2009
Companies subject to significant influence		
Shares, at equity value	\$ 4,003	\$ 4,495
Preferred shares, at cost, redeemable over 10 years, maturing in 2011	80	160
Loans and advances, at cost		
Mortgages and term notes, weighted average rate of 5.3% (4.6% in 2009), maturing at various dates until 2018	7,805	9,107
Other	845	860
	<u>12,733</u>	<u>14,622</u>
Portion of investments receivable within one year	2,245	2,644
	<u>\$ 10,488</u>	<u>\$ 11,978</u>

The consolidated statement of earnings includes interest income of \$1,575 (\$2,202 in 2009).

RONA inc.
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(In thousands of dollars, except amounts per share)

10. Fixed assets

	2010		
	Cost	Accumulated depreciation	Net
Land and parking lots	\$ 277,357	\$ 28,032	\$ 249,325
Buildings	307,600	77,198	230,402
Leasehold improvements	243,379	115,022	128,357
Furniture and equipment	396,808	231,289	165,519
Computer hardware	100,433	76,572	23,861
Projects in process ^(a)	68,400	—	68,400
Land for future development	48,499	—	48,499
Assets under capital leases ^(b)			
Furniture and equipment	12,704	9,010	3,694
Computer hardware	15,428	15,212	216
	<u>\$ 1,470,608</u>	<u>\$ 552,335</u>	<u>\$ 918,273</u>

	2009		
	Cost	Accumulated depreciation	Net
Land and parking lots	\$ 206,669	\$ 21,653	\$ 185,016
Buildings	277,229	57,236	219,993
Leasehold improvements	207,232	100,022	107,210
Furniture and equipment	358,615	208,742	149,873
Computer hardware	102,021	76,761	25,260
Projects in process ^(a)	65,685	—	65,685
Land for future development	99,750	—	99,750
Assets under capital leases ^(b)			
Furniture and equipment	15,076	8,227	6,849
Computer hardware	20,198	18,532	1,666
	<u>\$ 1,352,475</u>	<u>\$ 491,173</u>	<u>\$ 861,302</u>

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

(b) During the year, the Company acquired \$139 (\$871 in 2009) of assets under capital leases.

Depreciation of fixed assets amounts to \$83,230 (\$80,597 in 2009), including an impairment charge of \$2,000 recorded by the Company to reduce the carrying value of a building.

For the year ended December 26, 2010, capitalized interest on fixed assets amounts to \$3,534 (\$4,514 in 2009).

RONA inc.

Notes to Consolidated Financial Statements

December 26, 2010 and December 27, 2009

(In thousands of dollars, except amounts per share)

11. Fixed assets held for sale

The Company has decided to dispose of land and buildings in the retail and commercial store segment which are no longer used in operations, and accordingly, established a detailed plan to sell.

During 2010, the Company disposed of one building which had been held for sale (four parcels of land and four buildings in 2009) and recorded a gain on disposition of \$2,008 (\$2,351 in 2009).

During 2010, the Company reclassified an amount of \$4,725 (\$27,420 in 2009) from fixed assets held for sale for more than one year to fixed assets since these assets no longer met the criteria for presentation as fixed assets held for sale. This reclassification had no impact on the Company's results.

The change in fixed assets held for sale is as follows:

	2010	2009
Balance, beginning of year	\$ 13,242	\$ 34,870
Additions	12,160	8,854
Disposals	(500)	(1,012)
Impairment charge	—	(2,050)
Reclassification to fixed assets	(4,725)	(27,420)
Balance, end of year	\$ 20,177	\$ 13,242

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12. Intangible assets

	2010		
	Cost	Accumulated amortization	Net
Intangible assets with definite lives			
Trademarks	\$ 2,174	\$ 1,574	\$ 600
Software	218,136	103,240	114,896
Preferential price leases	418	158	260
Customer relationships	450	180	270
	221,178	105,152	116,026
Intangible assets with indefinite lives			
Trademarks	2,721	–	2,721
	\$ 223,899	\$ 105,152	\$ 118,747

	2009		
	Cost	Accumulated amortization	Net
Intangible assets with definite lives			
Trademarks	\$ 2,174	\$ 1,348	\$ 826
Software	167,776	74,038	93,738
	169,950	75,386	94,564
Intangible assets with indefinite lives			
Trademarks	2,321	–	2,321
	\$ 172,271	\$ 75,386	\$ 96,885

Amortization of intangible assets amounts to \$21,862 (\$17,069 in 2009).

For the year ended December 26, 2010, capitalized interest on software amounts to \$715 (\$1,485 in 2009).

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13. Other assets

	2010	2009
At unamortized cost		
Financing costs	\$ 1,540	\$ 2,432
Costs related to sale and leaseback agreement	2,346	2,612
Dealer recruitment costs	11,118	11,317
Accrued benefit asset (Note 22)	15,721	12,977
Others	318	344
	<u>\$ 31,043</u>	<u>\$ 29,682</u>

Amortization of other assets amounts to \$5,810 (\$5,494 in 2009).

14. Credit facilities

a) Parent company and some subsidiaries

Revolving credit

On October 6, 2006, the Company completed the refinancing of its credit facilities by way of an 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 26, 2010, the letters of guarantee issued amount to \$1,309. For 2010, the weighted average interest rate on the revolving credit is 2.9% (1.9% in 2009).

The Company is required to meet certain financial ratios. At December 26, 2010 and December 27, 2009, the Company is in compliance with these requirements.

Letters of credit

The Company also has an unsecured credit facility up to an amount of \$55,000, utilized for the issuance of letters of credit for imports. The terms and conditions to be respected are the same as for the revolving credit. At December 26, 2010, the amount used is \$32,360 (\$33,332 in 2009).

b) Other subsidiaries

Bank loans are secured by an assignment of certain assets in the amount of \$32,570 (\$40,033 in 2009). These bank loans bear interest at rates varying from prime rate to prime rate plus 0.50% and are renewable annually. At December 26, 2010, the interest rates varied from 3.00% to 3.50% (2.25% to 2.75% in 2009). The amount authorized for these credit facilities is \$16,660 (\$18,500 in 2009) and the amount used is \$1,500 (\$4,815 in 2009).

c) Joint ventures

Bank loans are secured by an assignment of certain assets of joint ventures. The Company's share of these assets amounts to \$5,841 (\$9,440 in 2009). These bank loans bear interest at rates varying from prime rate to prime rate plus 0.50% and are renewable annually. At December 26, 2010, the interest rates varied from 3.00% to 3.50% (2.25% to 3.25% in 2009). The amount authorized for these credit facilities is \$10,000 (\$18,400 in 2009) and the amount used is \$443 (\$396 in 2009).

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15. Long-term debt

	2010	2009
Debtures, unsecured, par value \$400,000, rate of 5.40%, due in 2016 ^(a)	\$ 396,967	\$ 396,564
Mortgage loans, secured by assets having a depreciated cost of \$101,190 (\$66,300 in 2009), rates varying from prime less 0.25% to 8.50% in 2010 and 2009, maturing on various dates until 2029	42,391	33,561
Obligations under capital leases, rates varying from 3.97% to 12.40% (2.90% to 12.40% in 2009), maturing on various dates until 2017	3,557	6,953
Balances of purchase prices, varying from 0.00% to 6.00% (prime less 1.00% to 3.00% in 2009), payable on various dates until 2015	20,569	442
Shares issued and fully paid 2,000,000 Class D preferred shares (3,000,000 shares in 2009) ^(b)	2,000	3,000
	465,484	440,520
Instalments due within one year	21,151	9,996
	\$ 444,333	\$ 430,524

(a) Effective rate of 5.5%.

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

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

	Obligations under capital leases	Long-term loans and shares
2011	\$ 2,024	\$ 19,227
2012	790	20,213
2013	265	8,550
2014	226	3,585
2015	224	2,467
2016 and subsequent years	151	410,918
Total minimum lease payments	3,680	
Financial expenses included in minimum lease payments	123	
	\$ 3,557	

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17. Other long-term liabilities

	2010	2009
Deferred gain on sale and leaseback transaction	\$ 10,179	\$ 11,324
Deferred lease obligations	22,942	19,993
	<u>\$ 33,121</u>	<u>\$ 31,317</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 \$707. 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 \$5,536.

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 61% of the cost of the inventories to a maximum of \$69,751. 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 \$60,990 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 2030 for corporate store space for minimum lease payments of \$916,207.

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 \$71,609 for the rental of premises and land on which the Company erected a building. In consideration thereof, the Company has signed subleasing agreements for an equivalent amount.

17. Guarantees, commitments and contingencies (continued)

Commitments (continued)

The minimum lease payments (minimum amounts receivable) under lease agreements for the next five years are \$125,411 (\$10,077) in 2011, \$116,669 (\$10,037) in 2012, \$107,453 (\$9,787) in 2013, \$98,970 (\$8,571) in 2014 and \$89,939 (\$6,973) in 2015.

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 26, 2010, the balance due on these agreements is \$3,800, i.e. \$1,900 in 2011 and \$1,900 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.

18. 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. Beginning in 2003, the Company has the obligation to repurchase these shares at their issue price over a maximum period of ten years on the basis of 10% per year (Note 15)

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18. Capital stock (continued)

Issued and fully paid:

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

			2010
	Number of shares		Amount
Balance, beginning of year	129,653,383	\$	600,459
Issuance in exchange for common share subscription deposits	250,979		3,842
Issuance under stock option plans	139,525		661
Issuance in exchange for cash	27,895		370
Issuance as payment for a business acquisition (Note 7)	2,230,067		35,000
Repurchased and cancelled	(2,230,067)		(10,790)
Balance before elimination of reciprocal shareholdings	130,071,782		629,542
Elimination of reciprocal shareholdings	(73,334)		(424)
Balance, end of year	129,998,448		629,118
Deposits on common share subscriptions, net of eliminations of joint ventures ^(a)			2,774
		\$	631,892

			2009
	Number of shares		Amount
Balance, beginning of year	115,819,699	\$	423,477
Issuance in exchange for common share subscription deposits	328,692		3,744
Issuance under stock option plans	113,775		502
Issuance in exchange for cash ^(b)	13,391,217		172,736
Balance before elimination of reciprocal shareholdings	129,653,383		600,459
Elimination of reciprocal shareholdings	(80,251)		(524)
Balance, end of year	129,573,132		599,935
Deposits on common share subscriptions, net of eliminations of joint ventures ^(a)			3,821
		\$	603,756

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

(b) In June 2009, the Company issued 13,374,500 common shares at a price of \$12.90 per share for total gross proceeds of \$172,531.

18. Capital stock (continued)

Normal course issuer bid

On June 16, 2010, the Board of Directors approved a normal course issuer bid to repurchase for cancellation, from June 21, 2010 to June 20, 2011, up to 3,250,000 common shares representing approximately 2.5 % of the common shares outstanding. Under this issuer bid approved by the Toronto Stock Exchange, the repurchases will be made at market prices in accordance with the rules and by-laws of the Toronto Stock Exchange. The Company ceases to consider shares as outstanding on the date of the Company's repurchase of its shares although the actual cancellation of the shares by the transfer agent and registrar occurs on a timely basis on a date shortly thereafter.

During the year ended December 26, 2010, the Company repurchased for cancellation a total of 2,230,067 common shares for a total cost of \$31,609. Of the total cost, \$10,790 represents the stated value of common shares and \$3,153 represents a reduction of the contributed surplus attributable to these shares. The remaining \$17,666 was charged to retained earnings.

19. Stock-based compensation

Stock option plans

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 could grant options for a maximum of 3,740,000 common shares. As at December 26, 2010 the 2,920,000 options granted have an exercise price of \$3.47 and of this number, 1,770,500 options (1,645,500 options in 2009) 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 26, 2010 and December 27, 2009.

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19. Stock-based compensation (continued)

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 and subsequently, the Board approved the option grants with vesting over a four-year period following the anniversary date of the grants at 25% per year.

As at December 26, 2010, the 2,857,452 options (2,475,752 options in 2009) granted have exercise prices ranging from \$10.62 to \$26.87 in 2010 and 2009 and of this number, 106,400 options (91,875 options in 2009) have been exercised and 1,172,758 options (691,525 options in 2009) have been forfeited.

The fair value of stock options granted of \$5.32 (\$4.11 in 2009) was estimated at the grant date using the Black-Scholes option-pricing model on the basis of the following assumptions:

	2010	2009
Risk-free interest rate	2.90%	1.98%
Expected volatility in stock price	28.50%	35.00%
Expected annual dividend	0%	0%
Expected life (years)	6	6

Compensation cost expensed with respect to this plan amounts to \$1,214 for the year ended December 26, 2010 (\$946 in 2009).

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19. Stock-based compensation (continued)

Stock option plans (continued)

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

		2010
	Options	Weighted average exercise price
Balance, beginning of year	2,966,852	\$ 10.47
Granted	381,700	15.44
Exercised	(139,525)	4.30
Forfeited	(481,233)	18.89
Balance, end of year	2,727,794	9.99
Options exercisable, end of year	1,968,644	\$ 8.57

		2009
	Options	Weighted average exercise price
Balance, beginning of year	2,981,002	\$ 11.46
Granted	516,700	10.62
Exercised	(113,775)	4.11
Forfeited	(417,075)	19.47
Balance, end of year	2,966,852	10.47
Options exercisable, end of year	1,906,969	\$ 7.72

The following table summarizes information relating to stock options outstanding as at December 26, 2010:

Exercise price	Expiration date	Options outstanding	Options exercisable
\$ 3.47	January 1, 2012	1,149,500	1,149,500
\$ 10.62	March 11, 2019	420,825	110,400
\$ 10.86	December 9, 2018	3,750	3,750
\$ 14.18	March 1, 2018	180,150	95,200
\$ 14.29	December 16, 2013	403,150	403,150
\$ 15.44	March 9, 2020	331,000	—
\$ 20.27	December 22, 2014	94,750	94,750
\$ 21.78	September 1, 2016	4,394	4,394
\$ 23.58	March 8, 2017	140,275	107,500
		2,727,794	1,968,644

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19. Stock-based compensation (continued)

Share unit plan for officers

The Company offers a share unit plan to officers and key employees of the Company and its subsidiaries under which restricted share units (RSUs) are granted. The RSUs are vested over a maximum term of three years based on performance targets. The RSUs are recognized as a compensation expense on a straight-line basis over the vesting period based on the forecasted attainment of targets. The RSUs are revalued at fair market value at the end of each reporting period until the vesting date using the market price of the Company's common shares. Fair market value changes are accounted for as compensation expense with a corresponding charge to accounts payable and accrued liabilities. RSUs that have been vested will be payable, at the Company's option, in cash or common shares, purchased on the secondary market, with an aggregate value equal to the amount that would have been paid in cash.

	2010	2009
Number of restricted share units:		
Balance, beginning of year	682,540	229,360
Granted	449,725	495,450
Forfeited	(196,940)	(42,270)
Balance, end of year	935,325	682,540

The expense recorded in the consolidated statement of earnings for the year ended December 26, 2010 amounts to \$2,805 (\$1,568 in 2009).

Share unit plan for directors

The Company offers a deferred share unit (DSU) plan for external directors. Under this plan, directors may elect to receive in the form of DSUs any percentage up to 100% of their fees payable in respect of serving as director. When a director elects to participate in this plan, the Company credits the director's account for a number of units equal to the deferred compensation divided by the average closing market price of the common shares of the Company during the five trading days immediately preceding the last day of each reporting period of the Company. Fair market value changes are accounted for as a compensation expense with a corresponding charge to accounts payable and accrued liabilities in the consolidated balance sheet. DSUs granted under this plan will be redeemable and the value of the units will be payable only when the unitholder ceases to be a director.

	2010	2009
Number of deferred share units		
Balance, beginning of year	149,139	103,421
Directors' compensation	50,173	45,718
Units paid	(26,531)	—
Balance, end of year	172,781	149,139

The expense recorded in the consolidated statement of earnings for the year ended December 26, 2010 amounts to \$569 (\$989 in 2009).

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20. Capital disclosures

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

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

As at December 26, 2010, the Company's net debt-to-capital ratio is 16.9% (10.4% in 2009).

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.

On December 7, 2010, the Board of Directors approved a dividend policy under which a cash dividend will be payable on a semi-annual basis to holders of common shares when declared. The first payment, a seven cent (\$0.07) per share dividend declared on December 7, 2010, will be payable on March 25, 2011 to holders of record on March 10, 2011. This new dividend policy will be reviewed by the Board of Directors from time-to-time in light of the Company's cash flows and earnings, financial position and other relevant factors.

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. The Company is in compliance with the ratios for the years ended December 26, 2010 and December 27, 2009. Other than covenants related to its credit facilities, the Company is not subject to any other externally imposed capital requirements.

21. Financial instruments

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

	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets held for trading				
Cash	\$ 75,577	\$ 75,577	\$ 239,257	\$ 239,257
Derivative financial instruments	1,905	1,905	801	801
Loans and receivables				
Accounts receivable	303,836	303,836	250,845	250,845
Loans and advances	7,805	7,844	9,107	9,337
Other financial liabilities				
Bank loans	1,943	1,943	5,211	5,211
Accounts payable and accrued liabilities	462,351	462,351	427,817	427,817
Dividends payable	9,119	9,119	–	–
Debentures	396,967	421,800	396,564	383,800
Mortgage loans and balances of purchase prices	62,960	64,517	34,003	35,237
Preferred shares	2,000	2,000	3,000	3,000
Financial liabilities held for trading				
Derivative financial instruments	1,653	1,653	776	776

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, mortgage loans and balances of purchase prices was determined based on discounted cash flows using effective interest rates available to the Company at the balance sheet date;
- The fair value of bank loans is comparable to their carrying amount since they bear interest at rates comparable to market rates;
- The fair value of debentures was determined using their buying exchange rates at the balance sheet date;
- The fair value of class D preferred shares, included in long-term debt, approximates their carrying amount (redemption value);
- The fair value of derivative instruments was determined by comparing the original rates of the derivatives with rates prevailing at the revaluation date for contracts having equal values and maturities (observable market data).

Fair value hierarchy

Section 3862, *Financial Instruments – disclosures*, establishes a fair value hierarchy which requires the Company to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Company primarily applies the market approach for recurring fair value measurements. The Section describes three levels of inputs that may be used to measure fair value:

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

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

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

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21. Financial instruments (continued)

Fair value hierarchy (continued)

The fair value measurements as recorded in the balance sheet are classified as follows:

	Level 1	Level 2	Level 3	Total
Assets				
Cash	\$ 75,577	\$ –	\$ –	\$ 75,577
Derivative financial instruments	–	1,905	–	1,905
Liabilities				
Derivative financial instruments	–	1,653	–	1,653

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

	2010	2009
Interest on accounts receivable	\$ (2,819)	\$ (2,942)
Interest on loans and advances	(1,575)	(2,202)
Interest on bank loans	2,295	2,586
Interest on long-term debt	20,226	20,951
Loss (gain) on change in fair value of derivative financial instruments	(30)	462

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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.

The aging of accounts receivable is as follows:

	2010	2009
Current	\$ 228,318	\$ 187,623
Past due 0 - 30 days	41,985	37,231
Past due 31-120 days	20,414	18,276
Past due over 121 days	23,910	11,417
Trade accounts receivable	314,627	254,547
Less: allowance for doubtful accounts	15,090	13,230
	<u>\$ 299,537</u>	<u>\$ 241,317</u>

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

	2010	2009
Balance, beginning of year	\$ 13,230	\$ 12,310
Doubtful accounts expense	3,812	4,038
Write-offs and recoveries	(1,952)	(3,118)
Balance, end of year	<u>\$ 15,090</u>	<u>\$ 13,230</u>

As at December 26, 2010, the maximum exposure to credit risk is \$389,123 (\$500,010 in 2009) which represents the carrying amount of financial instruments classified as assets, including cash in the amount of \$75,577 (\$239,257 in 2009).

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21. Financial instruments (continued)

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.

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

	2010				
	Total	Less than 1 year	1 - 2 years	3 - 4 years	5 years and more
Debtentures	\$ 534,956	\$ 21,600	\$ 43,200	\$ 43,200	\$ 426,956
Mortgage loans and balances of purchase prices	62,960	18,227	27,763	6,052	10,918
Obligations under capital leases	3,680	2,024	1,055	450	151
Preferred shares	2,000	1,000	1,000	—	—
Bank loans	1,943	1,943	—	—	—
Accounts payable and accrued liabilities	452,850	452,850	—	—	—
Dividends payable	9,119	9,119	—	—	—
Derivative financial instruments	1,653	1,653	—	—	—
Total	\$ 1,069,161	\$ 508,416	\$ 73,018	\$ 49,702	\$ 438,025

	2009				
	Total	Less than 1 year	1 - 2 years	3 - 4 years	5 years and more
Debtentures	\$ 556,556	\$ 21,600	\$ 43,200	\$ 43,200	\$ 448,556
Mortgage loans and balances of purchase prices	34,213	5,395	15,724	8,431	4,663
Obligations under capital leases	7,295	3,818	2,820	455	202
Preferred shares	3,000	1,000	2,000	—	—
Bank loans	5,211	5,211	—	—	—
Accounts payable and accrued liabilities	418,257	418,257	—	—	—
Derivative financial instruments	776	776	—	—	—
Total	\$ 1,025,308	\$ 456,057	\$ 63,744	\$ 52,086	\$ 453,421

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21. Financial instruments (continued)

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 26, 2010, the par value of forward exchange contracts is U.S. \$84,100 (U.S. \$70,700 in 2009). The average rate of these contracts is 1.0274 and they expire on various dates until May 2011.

On December 26, 2010, 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 \$63 (\$37 in 2009) decrease or increase in the Company's net earnings for the year ended December 26, 2010.

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 26, 2010, a 25-basis-point increase or decrease in interest rates, assuming that all other variables are constant, would have resulted in a \$112 (\$330 in 2009) decrease or increase in the Company's net earnings for the year ended December 26, 2010.

22. Employee future benefits

At December 26, 2010, the Company has eight defined contribution pension plans (seven in 2009) and four defined benefit pension plans (four in 2009).

The total expense is \$10,482 (\$9,012 in 2009) for defined contribution pension plans.

Total cash payments for employee future benefits for 2010, consisting of cash contributed by the Company to its defined benefit and defined contribution pension plans, are \$13,903 (\$13,109 in 2009).

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 year.

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22. Employee future benefits (continued)

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

	2010	2009
Accrued benefit obligations		
Balance, beginning of year	\$ 37,815	\$ 32,327
Current service cost	416	328
Employee contributions	223	225
Interest cost	2,337	2,427
Benefits paid	(1,980)	(2,573)
Actuarial loss	3,759	5,427
Settlement	–	(346)
Balance, end of year	\$ 42,570	\$ 37,815
Plan assets		
Fair value, beginning of year	\$ 40,679	\$ 35,169
Actual return	2,600	4,333
Employer contributions	3,421	4,097
Employee contributions	223	225
Benefits paid	(1,980)	(2,573)
Settlement	–	(572)
Fair value, end of year	\$ 44,943	\$ 40,679
Funded status – surplus	\$ 2,373	\$ 2,864
Unamortized net actuarial loss	13,433	10,206
Valuation allowance	(85)	(93)
Accrued benefit asset	\$ 15,721	\$ 12,977
Accrued benefit asset included in other assets (Note 13)	\$ 15,721	\$ 12,977
Allocation of plan assets		
Equity securities	58%	59%
Debt securities	42%	41%
Total	100%	100%

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22. Employee future benefits (continued)

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

	2010	2009
Current service cost	\$ 416	\$ 328
Interest cost	2,337	2,427
Actual return on plan assets	(2,600)	(4,333)
Actuarial loss	3,759	5,427
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	3,912	3,849
Adjustments to recognize the long-term nature of employee future benefit costs:		
Difference between expected return and actual return on plan assets	(253)	1,808
Difference between actuarial loss recognized and actual actuarial loss on accrued benefit obligations	(2,974)	(4,991)
Loss on settlement	—	226
Amortization of past service costs	—	8
Amortization of transitional obligation	—	45
	685	945
Valuation allowance relating to the accrued benefit asset	(8)	64
Defined benefit pension costs recognized	\$ 677	\$ 1,009

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

	2010	2009
Accrued benefit obligations as at December 31:		
Discount rate	5.50%	6.25%
Rate of compensation increase	3.60%	3.60%
Benefit costs for the years ended December 31 :		
Discount rate	6.25%	7.50%
Expected rate of return on plan assets	6.00%	7.00%
Rate of compensation increase	3.60%	3.50%

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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:

	2010	2009
Current assets	\$ 8,944	\$ 12,156
Long-term assets	14,087	14,249
Current liabilities	4,687	6,269
Long-term liabilities	7,632	9,157
Sales	41,217	50,237
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest	2,752	2,768
Net earnings	1,056	909
Cash flows from operating activities	983	2,113
Cash flows from investing activities	(1,579)	(937)
Cash flows from financing activities	(278)	(570)

The Company's sales include sales to joint ventures at fair value in the amount of \$62,895 (\$87,153 in 2009).

The Company's share in the commitments of these joint ventures amounts to \$304 (\$265 in 2009).

24. Segmented information

The Company has two reportable segments: distribution and retail and commercial (formerly corporate and franchised stores). The distribution segment relates to the supply activities to affiliated, franchised and corporate stores. The retail and commercial segment relates to the 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)

	2010	2009
Segment sales		
Retail and commercial	\$ 3,624,361	\$ 3,540,227
Distribution	2,384,853	2,318,172
Total	6,009,214	5,858,399
Intersegment sales and royalties		
Retail and commercial	—	—
Distribution	(1,209,349)	(1,181,040)
Total	(1,209,349)	(1,181,040)
Sales		
Retail and commercial	3,624,361	3,540,227
Distribution	1,175,504	1,137,132
Total	4,799,865	4,677,359
Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest		
Retail and commercial	390,106	370,812
Distribution	99,782	101,587
Total	489,888	472,399
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest		
Retail and commercial	266,479	252,840
Distribution	77,548	80,154
Total	344,027	332,994
Acquisition of fixed assets and intangible assets		
Retail and commercial	112,156	107,714
Distribution	41,547	54,290
Total	153,703	162,004
Acquisition of goodwill		
Retail and commercial	73,596	1,266
Distribution	3,025	—
Total	76,621	1,266
Total assets		
Retail and commercial	2,397,648	2,116,883
Distribution	577,429	633,000
Total	\$ 2,975,077	\$ 2,749,883

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25. Net earnings per share

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

	2010	2009
Net earnings	\$ 143,221	\$ 138,252
Number of shares (in thousands)		
Weighted average number of shares used to compute basic net earnings per share	130,139.3	123,628.0
Effect of dilutive stock options ^(a)	1,113.2	1,073.2
Weighted average number of shares used to compute diluted net earnings per share	131,252.5	124,701.2
Net earnings per share		
Basic	\$ 1.10	\$ 1.12
Diluted	\$ 1.09	\$ 1.11

(a) As at December 26, 2010, 570,419 common share stock options (575,777 options in 2009) were excluded from the calculation of diluted net earnings per share since these options have an antidilutive effect.

28. Subsequent event

On February 22, 2011, the Company closed the issuance of 6,000,000 cumulative Series 6 Class A preferred shares at a price of \$25.00 per share for total gross proceeds of \$150,000.

The Series 6 Class A preferred shares are entitled to a fixed, for the first five years, annual cumulative dividend of \$1.3125 per share, payable quarterly. These dividends must be declared by the Board of Directors of the Company.