

RONA

2012 MANAGEMENT'S DISCUSSION AND ANALYSIS AND CONSOLIDATED FINANCIAL STATEMENTS

BUILDING
ON OUR
STRENGTHS



// 2013-2015 TRANSFORMATIONAL PLAN HIGHLIGHTS

RONA 2013-2015 transformational plan is on its way to addressing our strategic priorities, solidifying our leadership position and best-in-class performance. This plan will enable the Corporation to become a leaner and more efficient organization while simplified administrative processes will eliminate unnecessary activities and expenses.

We already benefit from a diversified network. The key is to improve our merchandising, our pricing strategy, and our service in-store and to franchised and affiliated dealers. Overall, we need to make sure that RONA meets customer needs and expectations.

It also means that we will optimize or rationalize our non-core and underperforming assets such as Commercial and Professional Market division and big-box stores network outside Quebec.

Already, we are working on strengthening, leveraging and growing our core markets where profitability is strong. It is clear to RONA that Canadian dealers and corporate proximity stores as well as leading Quebec banners are such businesses.

LEVERAGING THE
STRENGTHS OF OUR
CORE COMPETENCIES

UNLOCKING THE
PROFIT POTENTIAL
OF A SIMPLIFIED
BUSINESS MODEL

GROWING CUSTOMER
SEGMENTS THROUGH
A MORE COMPELLING
VALUE PROPOSITION

3 STRATEGIC PRIORITIES

VISION

RONA's strategy aims at improving national distribution offerings for dealers, optimizing retail and contractor proximity models across Canada and strengthening its leadership position in Quebec.

IMPROVE
OUR EFFICIENCY

INCREASE
OUR RETURN
ON CAPITAL

3 FINANCIAL PRIORITIES

OPTIMIZE
OUR CAPITAL STRUCTURE

MESSAGE FROM THE EXECUTIVE CHAIRMAN

Our shareholders, customers, dealers and employees want a return to prosperity and that's exactly what our renewed Board of Directors and management team have been focusing on since the beginning of 2013.

RONA is a great company that has experienced tremendous growth in its history. Over the years, it has become the largest Canadian distributor and retailer of hardware, renovation and gardening products. But we operate in a competitive and dynamic environment and in this context, it's quite normal for companies like RONA to encounter stumbling blocks and face turmoil.

We need to make the necessary adjustments quickly and responsibly in order to maintain our leadership position in the industry. The management team has already identified opportunities that will allow us to improve our efficiency, optimize our balance sheet and post the kind of results this Corporation should generate.

I firmly believe we will quickly succeed in getting the Corporation back on track while keeping a strong focus on our customers' satisfaction. We have everything it takes to get there: a unique network, a respected brand and, above all, teams that care deeply about RONA's success and reputation across Canada.



ROBERT CHEVRIER
Executive Chairman of the Board

MESSAGE FROM THE ACTING CHIEF EXECUTIVE OFFICER, AND EXECUTIVE VICE PRESIDENT AND CHIEF FINANCIAL OFFICER

In 2012, we focused on the execution of our *New Realities, New Solutions* plan to improve our performance in line with our three financial priorities. While financial results fell short of our expectations, we maintained a disciplined management of our capital structure and generated free cash flow.

We undertook a complete re-assessment of all parts of our business in order to identify additional value creation opportunities. As a result of this review, the management team, supported by the Board, is working aggressively to build on the Corporation's solid financial position and transforming many aspects of our operations that have held back our overall performance.

Dedicated teams are currently executing or planning the various initiatives to drive short-term and longer-term results under RONA's 2013-2015 transformational plan. Short-term actions to redefine the support functions and operating model will result in \$35-45 million of expected EBITDA improvement. These benefits and freed up capital from non-core assets will be re-invested in our core businesses in order to deliver the industry-leading offering that our customers and dealers have come to expect from us. Leverage from positive same-store sales, in a more constructive economic environment, would enhance the positive impact of those initiatives.



DOMINIQUE BOIES
Acting Chief Executive Officer, and
Executive Vice President and Chief Financial Officer

RONA EVOLVES FAST AND LIVE.

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TABLE OF CONTENTS

Management's Discussion and Analysis	3
Management's Report on the Consolidated Financial Statements	17
Independent Auditor's Report	18
Consolidated Income Statements and Other Comprehensive Income.....	19
Consolidated Statements of Changes in Equity.....	20
Consolidated Statements of Cash Flows	22
Consolidated Statements of Financial Position	23
Notes to Consolidated Financial Statements	24

2012 MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE FISCAL YEAR ENDED DECEMBER 30, 2012

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. The Corporation operates a network of over 800 corporate, franchise and affiliate retail stores of various sizes and formats under different banners, and a network of 14 hardware and construction materials distribution centres. RONA is also a leader in the specialized plumbing and HVAC market, primarily serving commercial and professional customers with a network of close to 60 sales outlets and four distribution centres across the country. With close to 30,000 employees, the RONA store network generated consolidated sales of \$4.9 billion in the fiscal year ended December 30, 2012.

RONA's sales include:

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

FINANCIAL STATEMENTS

This *Management's Discussion and Analysis* should be read in conjunction with the Corporation's audited consolidated financial statements and related notes for the fiscal year ended December 30, 2012. These consolidated financial statements for the year ended December 30, 2012 were prepared in accordance with International Financial Reporting Standards ("IFRS"). The monetary amounts in these financial statements are expressed in Canadian dollars, unless otherwise indicated. RONA has filed its consolidated financial statements with the Canadian Securities Administrators and they can be viewed online at www.sedar.com or on RONA's website at www.rona.ca.

NON-GAAP PERFORMANCE MEASURES

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

While EBITDA does not have a definition that is standardized by IFRS, it is widely used in our industry and in financial circles to measure the profitability of operations, excluding tax considerations and the cost and use of capital. Adjusted gross margin is used by RONA's management to analyze the profitability of our network, after adjustments for network support. Given that these measures are not standardized, EBITDA and adjusted gross margin cannot be compared from one company to the next. Still, we establish them in the same way for each of the segments identified, and, unless expressly mentioned, our method does not change over time. EBITDA and adjusted gross margin must not be considered separately or as a substitute for other performance measures calculated according to IFRS, but rather as additional information. Also disclosed as additional information is the impact of unusual items and non-recurring items on 2012 and 2011 results (refer to sections "Unusual items" and "Non-recurring items" for more details).

The following table shows the reconciliation of these two measures, including impact of “unusual items” and “non-recurring items”:

Reconciliation of non-GAAP measures

(Unaudited) (in thousands of dollars, except margins in %)	Fiscal years ended			
	December 30, 2012	December 25, 2011	\$ change from 2011	% change from 2011
Revenues	4,884,016	4,804,584	79,432	1.7%
Cost of sales	(3,552,340)	(3,455,301)	(97,039)	(2.8%)
Gross profit	1,331,676	1,349,283	(17,607)	(1.3%)
Gross margin (gross profit/revenues)	27.27%	28.08%		-81 b.p.
Adjustments for network support ⁽¹⁾	106,331	107,931	(1,600)	(1.5%)
Adjusted gross profit	1,438,007	1,457,214	(19,207)	(1.3%)
Adjusted gross margin (adjusted gross profit/revenues)	29.44%	30.33%		-89 b.p.
Adjusted gross profit (excluding unusual items)	1,445,514	1,475,879	(30,365)	(2.1%)
Adjusted gross margin (adjusted gross profit/revenues) (excluding unusual items)	29.60%	30.72%		-112 b.p.
Adjusted gross profit (excluding unusual items and non-recurring items)	1,448,014	1,475,879	(27,865)	(1.9%)
Adjusted gross margin (adjusted gross profit/revenues) (excluding unusual items and non-recurring items)	29.65%	30.72%		-107 b.p.
Adjusted selling, general and administrative expenses	(1,275,644)	(1,216,659)	(58,985)	(4.8%)
Adjusted selling, general and administrative expenses (excluding unusual items)	(1,245,137)	(1,206,662)	(38,475)	(3.2%)
Adjusted selling, general and administrative expenses (excluding unusual items and non-recurring items)	(1,218,544)	(1,206,662)	(11,882)	(1.0%)
Rent	(130,740)	(134,189)	3,449	2.6%
EBITDA before rent	293,103	374,744	(81,641)	(21.8%)
EBITDA before rent (excluding unusual items)	331,117	403,406	(72,289)	(17.9%)
EBITDA before rent (excluding unusual items and non-recurring items)	360,210	403,406	(43,196)	(10.7%)
EBITDA margin before rent (EBITDA before rent/revenues)	6.00%	7.80%		-180 b.p.
EBITDA margin before rent (EBITDA before rent/revenues, excluding unusual items)	6.78%	8.40%		-162 b.p.
EBITDA margin before rent (EBITDA before rent/revenues, excluding unusual items and non-recurring items)	7.38%	8.40%		-102 b.p.
EBITDA	162,363	240,555	(78,192)	(32.5%)
EBITDA (excluding unusual items)	200,377	269,217	(68,840)	(25.6%)
EBITDA (excluding unusual items and non-recurring items)	229,470	269,217	(39,747)	(14.8%)
EBITDA margin (EBITDA/revenues)	3.32%	5.01%		-169 b.p.
EBITDA margin (EBITDA/revenues, excluding unusual items)	4.10%	5.60%		-150 b.p.
EBITDA margin (EBITDA/revenues, excluding unusual items and non-recurring items)	4.70%	5.60%		-90 b.p.
Finance income	(5,333)	(5,262)	(71)	(1.3%)
Goodwill impairment	-	(117,000)	117,000	100.0%
Amortization, depreciation and impairment of non-financial assets	(115,735)	(149,736)	34,001	22.7%
Amortization, depreciation and impairment of non-financial assets (excluding unusual items)	(109,481)	(107,055)	(2,426)	(2.3%)
Amortization, depreciation and impairment of non-financial assets (excluding unusual items and non-recurring items)	(98,196)	(107,055)	8,859	8.3%
Operating profit	41,295	(31,443)	72,738	231.3%
Operating profit (excluding unusual items)	85,563	156,900	(71,337)	(45.5%)
Operating profit (excluding unusual items and non-recurring items)	125,941	156,900	(30,959)	(19.7%)
Net income attributable to participating shares	8,029	(86,367)	94,396	109.3%
Net income attributable to participating shares (excluding unusual items)	40,455	86,948	(46,493)	(53.5%)
Net income attributable to participating shares (excluding unusual items and non-recurring items)	70,032	86,948	(16,916)	(19.5%)
Diluted net income (loss) per share \$	0.07	(0.66)	0.73	110.6%
Diluted net income (loss) per share \$ (excluding unusual items)	0.33	0.66	(0.33)	(50.0%)
Diluted net income (loss) per share \$ (excluding unusual items and non-recurring items)	0.57	0.66	(0.09)	(13.6%)

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

FISCAL YEAR

RONA's fiscal year ends on the last Sunday of each year and usually has 52 weeks. For interim disclosure purposes, quarters end on the last Sunday of March, June, September and December respectively, and generally have 13 weeks. The fiscal year ended December 25, 2011, had 52 weeks of operations, while the year ending December 30, 2012 had 53 weeks and the fourth quarter of 2012 had 14 weeks.

HIGHLIGHTS OF THE LAST THREE YEARS

SELECTED ANNUAL INFORMATION

(in millions of dollars, except number of shares and income (loss) per share)	Fiscal year ended		
	December 30, 2012*	December 25, 2011	December 26, 2010
Sales	4,884.0	4,804.6	4,819.6
Net income (loss) attributable to participating shares	8.0	(86.4)	137.4
Per share, diluted	0.07	(0.66)	1.05
Net income attributable to participating shares (excluding unusual and non-recurring items)	70.0	86.9	137.4
Per share, diluted (excluding unusual items and non-recurring items)	0.57	0.66	1.05
Total assets	2,806.5	2,780.4	2,921.6
Long-term debt	316.7	252.3	465.5
Number of common shares outstanding at year end	121,408,037	127,200,189	130,071,782

* Fiscal year ended December 2012 had 53 weeks.

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

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

As mentioned below, in 2012, RONA launched its *New Realities, New Solutions* business plan. Through this plan, we are further refining the proximity store concept, without having to make significant investments. Although renewing the proximity store concept is central to *New Realities, New Solutions*, this program has been launched after an exhaustive productivity improvement review of all RONA stores across the country. The plan generated \$10.5 million of annual recurring benefits with \$44.3 million of one-time related unusual costs and \$10 million of capital expenditures financed through \$16.5 million in disposal of assets. Sales initiatives and benefits of 2012 *New Realities, New Solutions* plan partially mitigated the impact of change in product mix and increased competition. For fiscal year 2012, net income before unusual and non-recurring items attributable to participating shares after the dividend on preferred shares was down from \$86.9 million, or \$0.66 per share (diluted) in 2011 to \$70.0 million, or \$0.57 per share (diluted).

UPDATE ON THE CORPORATION'S STRATEGIC ORIENTATION

The *New Realities, New Solutions* Plan

Announced in February 2012, the theme of RONA's 2012 business plan was *New Realities, New Solutions*. The plan addressed the need to adapt the offering in our industry to new expectations and changes in the behaviour of many consumers. It was also aimed at improving the performance of our bottom performing stores. The new plan capitalizes on our ongoing market research, including studies on consumer expectations and behaviours, as well as our continual experimentation with new store formats and new retail sales approaches. The new store formats are generating promising results in line with the favourable trend observed in recent quarters for smaller stores; the performance of the new stores is already better than that of the big-box stores they replaced.

In addition to positioning RONA in the forefront of its industry, the *New Realities, New Solutions* plan was designed to address the three main financial priorities announced by the Corporation in the third quarter of 2011: to improve efficiency, optimize capital structure and increase return on capital. The plan was expected to provide important leverage to improve return on capital. When it was introduced, it was expected to generate an estimated annualized contribution to EBITDA of \$10 million starting in the fourth quarter 2012, more than \$30 million for fiscal 2013, and more than \$40 million starting in 2014.

Early in the fourth quarter, we postponed to a later date the roll-out of the plan until we finalize the review undertaken under the Corporation's three strategic priorities that were announced in early December 2012. Accordingly, we deliberately postponed the closing of five big-box stores. This postponement decreases the annual recurring benefit estimated for 2012, however the acceleration of the TOTEM store transformation more than compensates for this situation. As a result, \$10.5 million of annual recurring benefit was realised in 2012 compared to an objective of \$10 million. With the exception of the transformation of TOTEM stores into the new RONA proximity model, which is almost completed, all other initiatives under the *New Realities, New Solutions* plan have been re-evaluated and incorporated into RONA's new transformational plan announced on February 21, 2013.

Financial Priorities

Our actions are always dictated by our three financial priorities. This disciplined approach is focused on achieving a medium term return on capital greater than 10%. We have made steady progress in this area during the four consecutive quarters ending on June 24, 2012. This upward trend was interrupted in the last two quarters, as a more competitive environment and a change in our sales mix in favour of lower-margin products affected our operating income. However, the continuation of our capital structure optimization initiatives, namely disciplined investment management, allowed us to mitigate the impact of the decrease on our return on capital and protect our strong balance sheet.

The following table shows quarterly achievements since the Corporation's three financial priorities were adopted in the third quarter of 2011.

FINANCIAL PRIORITIES	ACHIEVEMENTS VS PRIORITIES (excluding unusual and non-recurring items)								
	Q3-2011	Q4-2011	Q1-2012	Q2-2012	Q3-2012		Q4-2012 (14 weeks)	Q4-2012 (13 weeks)	
1. IMPROVE EFFICIENCY									
Same-store sales trending upward	✓	✓	✓	✓	-1%	✗	+2.9%	+0.2%	✓
Increase in adjusted gross margin in dollars	✓	✓	✓	✓	-\$20.3M	✗	-\$10.0M	-\$17.8M	✗
Decrease in comparable SG&A	✓	✓	✓	✓	+\$2.2M	✗	+\$16.4M	+\$4.1M	✗
Increase in EBITDA margin	✓	✓	✓	✓	-187 b.p.	✗	-194 b.p.	-157 b.p.	✗
2. OPTIMIZE CAPITAL STRUCTURE									
Sale of assets	✓	✓	✓	✓	\$0.0M	✗	\$5.6M	\$5.6M	✓
CAPEX/Amortization and depreciation	✓	✓	✓	✓	0.8X	✓	0.9X	0.9X	✓
Inventory turnover	✓	✓	✓	✓	3.54 vs 3.39	✓	3.54 vs 3.42	3.54 vs 3.42	✓
Share repurchase	✓	✓	✓	✓	n/a*	n/a*	n/a*	n/a*	n/a*
3. INCREASE RETURN ON CAPITAL									
After-tax EBIT	✓	✓	✓	✓	-\$15.9M	✗	-\$13.9M	-\$10.6M	✗
Disciplined capital management ⁽¹⁾	✓	✓	✓	✓	-\$24.1M	✓	-\$43.1M	-\$43.1M	✓
Return on capital ⁽²⁾	✓	✓	✓	✓	4.8% vs 5.4%	✗	4.2% vs 4.8%	4.4% vs 4.8%	✗

⁽¹⁾ Capital equals net working capital plus property, plant and equipment and intangible assets plus non-current assets held for sale plus goodwill plus current projects plus other financial and non-current assets plus deferred income tax assets minus other non-current liabilities minus deferred tax liabilities.

⁽²⁾ Average return on capital equals after-tax EBIT, excluding unusual and non-recurring items/average capital.

* The Corporation was prohibited from trading for most of these quarters.

The 2013-2015 Transformational Plan

On February 21, 2013, RONA announced its plan to transform the Corporation and accelerate value creation for its stakeholders. RONA's senior leadership team has been focusing on a number of strategic priorities that will redefine the Corporation's business model. The transformation, which has been approved by RONA's newly composed Board of Directors, will be deployed over the next twelve months and yield a growing contribution to profitability with full benefits expected within twenty-four months. The following outlines RONA's 2013-2015 transformational plan highlights:

- 1. Adapt our administrative support model to a leaner and more efficient organization**
 - Expected improvement of \$35M to \$45M in EBITDA, a 15% plus increase over the next 24 months;
 - Reduction of approximately 15% or 200 full-time positions at administrative offices across Canada;
 - Restructuring charge of \$25M expected.

- 2. Execute rapidly the plan for enhanced customer experience and improved performance in the areas of:**
 - Merchandising;
 - Pricing strategy;
 - Service in-store and to franchised and affiliated dealers.

- 3. Optimize/rationalize non-core and underperforming assets:**
 - Commercial and Professional Market division;
 - Big-box network outside Quebec.

- 4. Strengthen, leverage and grow our core markets where profitability is already strong:**
 - Our dealers across Canada;
 - Our corporate proximity stores across Canada serving both retail consumers and contractors;
 - Our leading Quebec banners.

The different initiatives of RONA's 2013-2015 transformational plan are perfectly aligned with the Corporation's strategic and financial priorities. Similar to the practice adopted for the disclosure of its financial priorities, RONA will provide quarterly updates on specific ongoing initiatives and achievements. Key performance indicators will be provided and reported on for several of the initiatives included in the transformational plan as implemented.

CONSOLIDATED RESULTS FOR FISCAL 2012

The results analyzed in this section are for the fiscal year ended December 30, 2012 and, when compared, are compared to the results for the fiscal year ended December 25, 2011, unless otherwise indicated.

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

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

The table below summarizes the Corporation's segment results.

(in thousands of dollars)	December 30, 2012 *	December 25, 2011	\$ change from 2011	% change from 2011
Segment revenues				
Retail and commercial	3,692,229	3,660,827	31,402	0.9%
Distribution	2,418,192	2,331,597	86,595	3.7%
Total	6,110,421	5,992,424	117,997	2.0%
Intersegment revenues and royalties				
Retail and commercial	(17,008)	(27,815)	10,807	38.9%
Distribution	(1,209,397)	(1,160,025)	(49,372)	(4.3%)
Total	(1,226,405)	(1,187,840)	(38,565)	(3.2%)
Revenues				
Retail and commercial	3,675,221	3,633,012	42,209	1.2%
Distribution	1,208,795	1,171,572	37,223	3.2%
Total	4,884,016	4,804,584	79,432	1.7%
EBITDA				
Retail and commercial	101,420	179,149	(77,729)	(43.4%)
Distribution	60,943	61,406	(463)	(0.8%)
Total	162,363	240,555	(78,192)	(32.5%)
EBITDA (excluding unusual items)				
Retail and commercial	138,981	207,811	(68,830)	(33.1%)
Distribution	61,396	61,406	(10)	-
Total	200,377	269,217	(68,840)	(25.6%)
EBITDA (excluding unusual items and non-recurring items)				
Retail and commercial	161,787	207,811	(46,024)	(22.1%)
Distribution	67,683	61,406	6,277	10.2%
Total	229,470	269,217	(39,747)	(14.8%)
EBITDA margin				
Retail and commercial	2.76%	4.93%		-217 b.p.
Distribution	5.04%	5.24%		-20 b.p.
Total	3.32%	5.01%		-169 b.p.
EBITDA margin (excluding unusual items)				
Retail and commercial	3.78%	5.72%		-194 b.p.
Distribution	5.08%	5.24%		-16 b.p.
Total	4.10%	5.60%		-150 b.p.
EBITDA margin (excluding unusual items and non-recurring items)				
Retail and commercial	4.40%	5.72%		-132 b.p.
Distribution	5.60%	5.24%		36 b.p.
Total	4.70%	5.60%		-90 b.p.

* Fiscal year 2012 had 53 weeks. See "Fiscal year" above.

Revenues

Consolidated revenues stood at \$4,884.0 million, up \$79.4 million, or 1.7% from 2011. The increase stems from a 9.7% increase in sales in the Commercial and Professional Market division, new store openings, the recruiting of new dealer-owners and higher same-store sales in the RONA network, particularly in distribution sales to affiliate dealers.

Same-store sales for the RONA network as a whole (retail, commercial and distribution) remained at the same level as in 2011. This performance stems from a 6.4% increase in same-store distribution sales to affiliate dealer-owners. Same-store sales in the retail and commercial segment were, for their part, down 0.3%, given the negative impact of the mix of products sold and consumers' return to a more cautious approach as of late May.

Unusual items

At the end of 2011, the restructuring costs associated with *New realities, new solutions* were \$71.3 million recorded at year-end of which only \$9.8 million required a cash outflow almost entirely disbursed in 2011. Furthermore, the Corporation's annual goodwill impairment test led to a year-end write-down of \$117.0 million due to the adverse impact of difficult market conditions on funds generated by the Corporation's retail assets. Unusual expenses of \$9.9 million were also recorded at year-end for fees and premiums related to the \$283 million repurchase of its debentures maturing in 2016.

Unusual items totalling \$44.3 million were recognized in fiscal 2012 under the program to redeploy sales volume from the big-box store network to proximity and satellite stores, as anticipated when fiscal 2011 year-end results were released. A portion of these items, amounting to \$7.5 million, was deducted from gross profit. Another portion, \$30.5 million, was recognized in the Corporation's selling, general and administrative expense, and the remaining \$6.3 million was recognized in amortization, depreciation and impairment of non-financial assets expenses. The net total after-tax amount of these items was \$32.4 million, or \$0.26 per share (diluted). Note that these unusual items are presented separately under Restructuring costs, impairment of non-financial assets and other charges in the consolidated income statement.

Non-recurring items

Non-recurring items totalling \$40.4 million were recognized in fiscal 2012 mainly due to costs resulting from the unsolicited, non-binding expression of interest from Lowe's, severance payments related to an administrative-services reorganization, the temporary increase in advertising expense for the 2012 Olympic advertising campaign and the impairment of long-term assets. A portion of these items, amounting to \$2.5 million, was deducted from gross profit. Another portion, \$26.6 million was recognized under selling, general and administrative expenses, and the remaining \$11.3 million was recognized in amortization, depreciation and impairment of non-financial assets expenses. The total net after-tax amount of these items was \$29.6 million, or \$0.24 per share (diluted).

The tables below summarize RONA's performance including and excluding unusual items and non-recurring items.

(Unaudited) (in millions of dollars, except income per share)	Fiscal year 2012*	Unusual items	Fiscal year 2012 before unusual items	Non-recurring items	Fiscal year 2012 before unusual and non-recurring items
Adjusted gross margin	1,438.0	7.5	1,445.5	2.5	1,448.0
Adjusted SG&A	1,275.6	30.5	1,245.1	26.6	1,218.5
EBITDA	162.4	38.0	200.4	29.1	229.5
Amortization, depreciation and impairment of non-financial assets	115.7	6.2	109.5	11.3	98.2
Net income attributable to participating shares	8.0	32.4	40.4	29.6	70.0
Diluted net income per share \$	0.07	0.26	0.33	0.24	0.57

* Fiscal year 2012 had 53 weeks. See "Fiscal year" above.

(Unaudited) (in millions of dollars, except income per share)	Fiscal year 2011	Unusual items	Fiscal year 2011 before unusual items
Adjusted gross margin	1,457.2	18.7	1,475.9
Adjusted SG&A	1,216.6	9.9	1,206.7
EBITDA	240.6	28.6	269.2
Amortization, depreciation and impairment of non-financial assets	149.7	42.7	107.0
Goodwill impairment	-	117.0	117.0
Interest expenses	34.7	9.9	24.8
Net income (loss) attributable to participating shares	(86.4)	173.3	86.9
Diluted net income (loss) per share \$	(0.66)	1.32	0.66

Gross margin

Gross margin amounted to 27.27%, down 81 basis points from 2011; adjusted gross margin excluding unusual and non-recurring items was down 107 basis points to 29.65%. The decrease stems mainly from intensified competition, which led to an increase in promotional activities and downward pressure on prices in several categories, especially building supplies. The decrease is also due to a major increase in sales of building materials that had a lower margin than hardware products. Gross margin was also affected by the higher cost of some products, such as lumber. These items were partially offset by various efficiency improvement initiatives.

Selling, general and administrative expenses

Adjusted selling, general and administrative expenses rose by \$58.9 million in fiscal 2012, from \$1,216.7 million in 2011 to \$1,275.6 million in 2012. The increase was recorded in the second half of fiscal 2012, since in the first half of the fiscal year the Corporation reduced its comparable selling, general and administrative expenses. The increase is due to unusual and non-recurring items, expenses related to development of the Commercial and Professional Market division network, and store acquisitions and openings. On a comparable basis, selling general and administrative expenses excluding unusual and non-recurring items were up \$10.0 million since the start of the fiscal year and were down \$2.3 million excluding the 53rd week effect.

EBITDA

For fiscal 2012, EBITDA before unusual and non-recurring items amounted to \$229.5 million, compared to \$269.2 million in 2011, a decrease of \$39.7 million, or 14.8%. This decrease stems mainly from the lower adjusted gross margin, along with:

- higher selling, general and administrative expenses in the second half of fiscal 2012;
- additional operating costs in the Commercial and Professional Market division since the start of the fiscal year, which stems from network expansion in the process of achieving its full potential.

An efficiency improvement plan has been put in place in this division to reduce operating costs to a level more in line with the division's historical performance.

EBITDA margin before unusual and non-recurring items was down 90 basis points, from 5.60% in 2011 to 4.70% in 2012. The decrease is primarily due to the significant downward pressure on the Corporation's gross margin given the change in product mix and particularly difficult market conditions.

EBITDA after unusual and non-recurring items amounted to \$162.4 million, compared to \$240.6 million in 2011. EBITDA margin after unusual and non-recurring items was down 169 basis points, from 5.01% in 2011 to 3.32% in 2012.

Interest, amortization, depreciation and impairment

Interest expense on long-term debt and bank loans was down \$14.2 million, or 40.8% in 2012. The decrease is due to the interest savings generated by the \$283 million debenture repurchase at the end of 2011 and to the one-time cost related to this repurchase, to strict management of the balance sheet and spending on property, plant and equipment, partially offset by greater use of credit facilities in 2012 compared to 2011. Amortization, depreciation and impairment of non-financial assets expenses before unusual and non-recurring items were also down, from \$107.0 million in 2011 to \$98.2 million in 2012. An amount of \$17.5 million representing an impairment charge for non-financial assets was recognized in depreciation, amortization and impairment of non-financial assets. Including this amount, amortization, depreciation and impairment expense in 2012 amounted to \$115.7 million.

Net income

The decrease in EBITDA before unusual and non-recurring items was partially offset by a decrease in financial and amortization and depreciation expense, such that net income before unusual and non-recurring items attributable to participating shares, net of the dividend on preferred shares, went from \$86.9 million in 2011 to \$70.0 million in 2012. Diluted net income per share before unusual and nonrecurring items decreased, from \$0.66 in 2011 to \$0.57 in 2012.

After recognition of unusual items and non-recurring items totalling \$62.0 million after tax, net income attributable to participating shares, net of the dividend on preferred shares, increased from a loss of \$86.4 million in 2011 to a profit of \$8.0 million in 2012. Net income per share (diluted) increased from a loss of \$0.66 to a profit of \$0.07. Note that the average number of shares outstanding used to calculate net income per share decreased by 7.1 million shares to 122.9 million shares in 2012 following the share repurchases made under the share repurchase program in the normal course of business put in place by the Corporation in November 2011, which expired in November 2012 and was not renewed.

CASH FLOWS AND FINANCIAL POSITION

For fiscal 2012, cash flow from operating activities before net change in working capital, interest received and income taxes paid was \$159.7 million compared to \$202.3 million in 2011. The net change in working capital was negative and amounted to \$14.9 million in 2012, compared to a net change of \$66.7 million in 2011. This significant variation is due to higher inventories of certain products in order to take advantage of particularly attractive purchase conditions. After the net change in working capital, interest received and income taxes paid, operating activities thus generated \$125.5 million in 2012, compared to \$230.2 million for the same period of 2011.

The Corporation continued to exercise disciplined financial management and strictly controlled its investments in property, plant and equipment. For fiscal 2012, RONA invested \$86.4 million in property, plant and equipment and intangible assets, which was \$23.0 million, or 21.1% less than in 2011. Amounts were invested in continuous improvement of the Corporation's information systems to increase operational efficiency, and in maintenance work. The level of investment in property, plant and equipment and intangible assets remains lower than amortization and depreciation expense, which amounted to \$96.4 million in 2012.

In fiscal 2011 and 2012, RONA has taken a number of steps to optimize its capital structure. In November 2011, the Corporation set up a program to repurchase, in the normal course of its activities between November 11, 2011 and November 10, 2012, up to 11,016,854 common shares, representing 10% of its 110,168,541 public float or 8.4% of its 130,520,489 common shares issued and outstanding on October 31, 2011. Since the repurchase program was instituted in November 2011, the Corporation has bought back 10.4 million shares at an average price of \$9.47 per share for a total of \$98.5 million at November 10, 2012. These shares were cancelled. RONA did not renew its normal course issuer bid following expiration of the previous program on November 10, 2012.

Despite a slight increase in leveraging, RONA's balance sheet remains strong. As at December 30, 2012, the Corporation's total debt was \$328.0 million compared to \$256.7 million in 2011. The Corporation's net debt amounted to \$307.0 million, compared to \$239.6 million at December 25, 2011. The ratio of total net debt to capital was 14.0%, compared to 10.9% in 2011. The ratio of total debt to EBITDA before unusual items remained stable at 1.6.

The table below presents a synopsis of the Corporation's contractual obligations as at December 30, 2012, including off-balance-sheet operating lease agreements used in the normal course of business. The Corporation has also concluded other off-balance-sheet arrangements (such as inventory buyback agreements and guaranteed bank loans), which do not appear in the table. The loan has an indefinite term and no assets have been given as security. Pursuant to the terms of inventory repurchase agreements, the Corporation is committed towards financial institutions to buy back the inventory of certain customers at an average of 65% of the cost of the inventories to a maximum of \$47.0 million. In the event of recourse, this inventory would be sold in the normal course of the Corporation's operations. These agreements have undetermined periods but may be cancelled by the Corporation on 30 days' notice. In the opinion of Management, the likelihood that significant payments would be incurred as a result of these commitments is low. Finally, letters of credit for imports totalling \$24.2 million were outstanding as at December 30, 2012 for the purchase of various, mainly seasonal, products.

Contractual obligations by term
(as at December 30, 2012)

Contractual obligations	Payments by term (thousands of dollars)				
	Total	Less than 1 year	1-2 years	3-4 years	5 or more years
Long-term loans and credit facilities	307,091	5,493	4,787	292,373	4,438
Obligations under finance leases	907	317	421	169	-
Operating leases	961,483	137,773	248,335	199,287	376,088
Other long-term obligations	17,413	10,729	5,514	-	1,170
Total	1,286,894	154,312	259,057	491,829	381,696

Outstanding shares
(as at February 20, 2013)

Common shares	121,408,037
Unexercised options	1,992,135
Total	123,400,172

SUMMARY OF QUARTERLY RESULTS

RONA's results fluctuate significantly from one quarter to another due to the highly seasonal nature of renovation and construction activities. The strongest period of the year is from spring to fall, and over 80% of the Corporation's net annual earnings are generated in the second and third quarters. Furthermore, sales in the first quarter are always lower than in the other three, due to low activity levels in the renovation and construction sectors during the winter. Poor weather conditions can also have a major impact on sales. With the increase in the proportion of our activities related to the retail sector, the seasonal impact of the first quarter has been more pronounced in 2010, 2011 and 2012 than in previous years. The second quarter is always the strongest of the year, followed by the third quarter.

Consolidated quarterly financial results
(Unaudited) (in millions of dollars, except income (loss) per share)

	2012				2011				2010
	Q4 *	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenues	1,195.4	1,336.6	1,417.1	934.9	1,169.2	1,347.1	1,370.0	918.2	1,139.2
EBITDA	23.2	41.5	86.6	11.1	37.2	105.4	89.9	8.1	64.8
EBITDA excluding unusual items	27.5	67.2	94.6	11.1	65.9	105.4	89.9	8.1	64.8
EBITDA excluding unusual items and non-recurring items	44.1	79.7	94.6	11.1	65.9	105.4	89.9	8.1	64.8
Net income (loss) attributable to participating shares	(17.9)	5.1	34.1	(13.3)	(153.6)	47.8	37.0	(17.6)	20.0
Net income (loss) attributable to participating shares (excluding unusual items)	(13.8)	23.9	43.6	(13.3)	19.7	47.8	37.0	(17.6)	20.0
Net income (loss) attributable to participating shares (excluding unusual items and non-recurring items)	6.6	33.1	43.6	(13.3)	19.7	47.8	37.0	(17.6)	20.0
Diluted net income (loss) per share \$	(0.15)	0.04	0.28	(0.10)	(1.19)	0.36	0.28	(0.13)	0.15
Diluted net income (loss) per share \$ (excluding unusual items)	(0.11)	0.20	0.36	(0.10)	0.15	0.36	0.28	(0.13)	0.15
Diluted net income (loss) per share \$ (excluding unusual items and non-recurring items)	0.05	0.27	0.36	(0.10)	0.15	0.36	0.28	(0.13)	0.15

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

	Q4 2012 *	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010
Retail and Commercial Sector	2.4%	-1.8%	-0.9%	-0.8%	-2.3%	-5.1%	-9.6%	-12.6%	-6.4%
Total RONA Network	2.9%	-1.0%	+1.0%	-0.3%	-1.2%	-4.2%	-9.3%	-11.5%	-6.6%

Note: To better represent the performance of the RONA network as a whole, the concept of same-store sales was revised during the quarter and now includes same-store distribution sales to RONA affiliate dealer-owners, who account for more than 25% of total sales.

* Q4 2012 had 14 weeks versus 13 for the other quarters. See "Fiscal year" above.

DIVIDENDS ON PREFERRED SHARES

At its meeting on February 20, 2013, RONA's Board of Directors declared a quarterly dividend of \$0.3237 per share on cumulative 5-year rate reset Class A preferred shares, series 6. The dividend will be paid on April 1, 2013 to holders of record on March 15, 2013.

DIVIDENDS ON COMMON SHARES

At its meeting on February 20, 2013, RONA's Board of Directors declared a semi-annual dividend of \$0.07 per share on the Corporation's common shares. This dividend will be paid on March 25, 2013 to holders of record on March 11, 2013.

RISKS AND UNCERTAINTIES

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

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

Market and competition

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

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

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

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

The economy

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

As explained, economic conditions have an impact on RONA's results. While economic recovery is underway, 2012 saw a decline in consumer confidence over the year, as well as a slowdown in new housing and resale activity.

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

Human resources

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

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

Information technology

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

Reputation

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

Supply chain

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

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

Acquisition, Recruitment, Integration, Development

Acquisitions and recruitment are two important vectors of RONA's development strategy. While the Corporation wants to recruit or make acquisitions, nothing guarantees the availability of businesses that meet its rigorous selection criteria. RONA's goal is to quickly integrate and build loyalty in all acquired and recruited businesses to achieve the expected benefits. RONA's desire to expand may also be hampered by an inability to find locations appropriate for development. When redeploying points of sales at new sites, the Corporation may not have access to the appropriate location in due time and could incur important fees considering its future engagements. Although recruited businesses, called "dealers," are bound by commercial contracts with RONA and benefit from favourable purchase conditions, an experienced support team, an integrated and customized regional development strategy and a succession program, all designed to keep these businesses loyal to RONA, and although RONA considers that it has maintained good relations with these businesses for many years, there is no guarantee that all of these businesses will maintain relations with RONA in the future, which could have an adverse impact on the financial results of RONA's distribution arm. Furthermore, although under the terms of their commercial contracts with RONA these businesses agree to comply with certain RONA guidelines with respect to merchandising, advertising, brand image and purchasing, RONA does incur the risk that some dealers may not meet their commitments, which would have an adverse impact on the financial results of RONA's distribution business and on its reputation and image.

Legal and regulatory requirements

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

Availability of financing

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

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

Transformational plan

RONA's transformational plan, announced on February 21, 2013, involves dedicated teams executing on the various initiatives to drive immediate and longer term results. Short term actions to redefine an operating model of support functions to improve efficiency and free up capital from non-core assets are underway while other actions will be implemented in the near future. The plan aims at improving RONA's positioning in its core businesses and generating longer term sustained growth in results and returns. It represents a major review of RONA's business model which could result in an important short term impact on the Corporation's results and on its financial position.

Credit risk

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

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

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

As at December 30, 2012, the maximum exposure to credit risk is \$395,657 (\$397,483 as at December 25, 2011) which represents the carrying amount of financial instruments classified as assets, including cash in the amount of \$21,006 (\$17,149 as at December 25, 2011).

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

Liquidity risk

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

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

As at December 30, 2012	Total	Less than 1 year	1 – 2 years	3 – 4 years	5 years and more
Debentures	\$ 140,854	\$ 6,291	\$ 12,583	\$ 121,980	\$ –
Mortgage loans and balances of purchase prices	27,785	11,392	7,141	3,644	5,608
Obligations under finance leases	907	317	421	169	–
Bank loans	11,332	11,332	–	–	–
Trade and other payables	492,813	492,813	–	–	–
Dividends payable	2,258	2,258	–	–	–
Derivative financial instruments	3,553	3,553	–	–	–
Total	\$ 679,502	\$ 527,956	\$ 20,145	\$ 125,793	\$ 5,608

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

Exchange risk and foreign currency sensitivity

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

As at December 30, 2012, the par value of foreign exchange forward contracts was U.S. \$85,800 (U.S. \$91,300 in 2011). The average rate of these contracts was 0.9978 (0.9986 in 2011) and they expire on various dates until June 2013.

On December 30, 2012, a 1% increase or decrease in the exchange rate of the Canadian dollar compared to the U.S. dollar, assuming that all other variables were constant, would have resulted in a \$103 (\$119 as at December 25, 2011) decrease or increase in the Corporation's net income and equity for the year ended December 30, 2012.

Interest rate risk

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

	2012	2011
	As at December 30	As at December 25
Fixed rate instruments		
Financial assets	\$ -	\$ -
Financial liabilities	133,454	146,207
	<u>\$ (133,454)</u>	<u>\$ (146,207)</u>
Floating rate Instruments		
Financial assets	\$ 11,499	\$ 10,240
Financial liabilities	183,250	105,123
	<u>\$ (171,751)</u>	<u>\$ (94,883)</u>

On December 30, 2012, a 25-basis-point increase or decrease in interest rates, assuming that all other variables were constant, would have resulted in a \$310 (\$170 as at December 25, 2011) decrease or increase in the Corporation's net income and equity for the year ended December 30, 2012.

Use of estimates and judgments

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

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

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

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

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 30, 2012, the Acting Chief Executive Officer and Executive Vice President and Chief Financial Officer concluded that the Corporation's disclosure controls and procedures are properly designed and effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

RONA has evaluated the effectiveness of internal control over financial reporting as at December 30, 2012 in accordance with the MI 52-109 guidelines. This evaluation has allowed the Acting Chief Executive Officer and Executive Vice President and Chief Financial Officer to conclude that the Corporation's internal control over financial reporting is effective and provides reasonable assurance that the Corporation's financial reporting is reliable and that its consolidated financial statements are prepared in accordance with International Financial Reporting Standards.

FORWARD-LOOKING STATEMENTS

This MD&A includes "forward-looking statements" that involve risks and uncertainties. All statements other than statements of historical facts included in this MD&A, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the Corporation may constitute forward-looking statements within the meaning of the Canadian securities legislation and regulations. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "foresee," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. Although the Corporation believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Forward-looking statements do not take into account the impact that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Corporation's business. For example, they do not include the impact of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made.

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

The forward-looking statements in this MD&A reflect the Corporation's expectations as at February 21, 2013, and are subject to change after this date. The Corporation expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

ADDITIONAL INFORMATION

This MD&A was prepared on February 21, 2013. The reader will find additional information concerning RONA, including the Corporation's Annual Information Form, on the Corporation's website at www.rona.ca or on the SEDAR website at www.sedar.com.

(s) Dominique Boies

Dominique Boies
Acting Chief Executive Officer
and Executive Vice President and Chief Financial Officer

MANAGEMENT'S REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

(s) Dominique Boies

Dominique Boies

Acting Chief Executive Officer
and Executive Vice President and Chief Financial Officer

Boucherville, February 20, 2013

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated financial statements of RONA inc., which comprise the consolidated statements of financial position as at December 30, 2012 and December 25, 2011 and the consolidated statements of income, other comprehensive income, changes in equity and cash flows for the years ended December 30, 2012 and December 25, 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of RONA inc. as at December 30, 2012 and December 25, 2011 and its financial performance and its cash flows for the years ended December 30, 2012 and December 25, 2011 in accordance with International Financial Reporting Standards (IFRS).

Raymond Chabot Grant Thornton S.E. N.C. R. L.¹

Montréal, February 20, 2013

¹ CPA auditor, CA public accountancy permit no. A123715

RONA inc.
Consolidated Income Statements and Other Comprehensive Income

Years ended December 30, 2012 and December 25, 2011

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

Consolidated Income Statements

	2012	2011
Revenues (Note 4)	\$ 4,884,016	\$ 4,804,584
Operating profit before goodwill impairment, restructuring costs, impairment of non-financial assets and other charges (Note 5.1)	85,563	156,900
Goodwill impairment (Note 14)	-	(117,000)
Restructuring costs, impairment of non-financial assets and other charges (Note 5.4)	(44,268)	(71,343)
Operating profit (loss)	41,295	(31,443)
Finance income (Note 25)	5,333	5,262
Finance costs (Note 25)	(20,576)	(34,729)
	(15,243)	(29,467)
Income (loss) before income tax expense	26,052	(60,910)
Income tax expense (Note 7)	(6,969)	(13,863)
Net income (loss)	\$ 19,083	\$ (74,773)
Net income (loss) attributable to:		
Owners of RONA inc.	\$ 17,297	\$ (78,382)
Non-controlling interests	1,786	3,609
	\$ 19,083	\$ (74,773)
Net income (loss) per share attributable to owners of RONA inc. (Note 29)		
Basic	\$ 0.07	\$ (0.66)
Diluted	\$ 0.07	\$ (0.66)
Consolidated Statements of Other Comprehensive Income		
Net income (loss)	\$ 19,083	\$ (74,773)
Other comprehensive income (loss) net of taxes :		
Items that will be reclassified to net income		
Cash flow hedges		
– Loss for the year	(2,666)	(920)
– Reclassification to income	574	1,632
	(2,092)	712
Items that will not be reclassified to net income		
Actuarial losses (Note 26)	(2,703)	(2,775)
Total other comprehensive loss	(4,795)	(2,063)
Total comprehensive income (loss)	\$ 14,288	\$ (76,836)
Total comprehensive income (loss) attributable to:		
Owners of RONA inc.	\$ 12,502	\$ (80,445)
Non-controlling interests	1,786	3,609
	\$ 14,288	\$ (76,836)

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

RONA inc.

Consolidated Statements of Changes in Equity

Years ended December 30, 2012 and December 25, 2011

(in thousands of Canadian dollars)

	Share capital ^(a)	Retained earnings	Contributed surplus	Cash flow hedge reserve	Total attributable to owners of RONA inc.	Non-controlling interests	Total equity
Balance, December 25, 2011	\$ 793,416	\$ 1,115,801	\$ 11,386	\$ (505)	\$ 1,920,098	\$ 35,526	\$ 1,955,624
Transactions with owners							
Issuance in exchange for cash	75	-	-	-	75	-	75
Issuance under stock option plans	3,534	-	(48)	-	3,486	-	3,486
Repurchase of common shares (Note 22)	(34,257)	(32,510)	-	-	(66,767)	-	(66,767)
Dividends declared on common shares	-	(17,191)	-	-	(17,191)	-	(17,191)
Dividends declared on preferred shares, including income taxes	-	(9,268)	-	-	(9,268)	-	(9,268)
Compensation cost relating to stock option plans	-	-	1,183	-	1,183	-	1,183
Deposits on common share subscriptions received	2,141	-	-	-	2,141	-	2,141
Deposits on common share subscriptions refunded	(27)	-	-	-	(27)	-	(27)
Other	-	-	-	-	-	32	32
Total transactions with owners	(28,534)	(58,969)	1,135	-	(86,368)	32	(86,336)
Income for the year	-	17,297	-	-	17,297	1,786	19,083
Other comprehensive income (loss):							
Cash flow hedges							
- Loss for the year	-	-	-	(2,666)	(2,666)	-	(2,666)
- Reclassification to income	-	-	-	574	574	-	574
Actuarial losses (Note 26)	-	(2,703)	-	-	(2,703)	-	(2,703)
Total other comprehensive loss for the year	-	(2,703)	-	(2,092)	(4,795)	-	(4,795)
Balance, December 30, 2012	\$ 764,882	\$ 1,071,426	\$ 12,521	\$ (2,597)	\$ 1,846,232	\$ 37,344	\$ 1,883,576

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

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

RONA inc.

Consolidated Statements of Changes in Equity

Years ended December 30, 2012 and December 25, 2011

(in thousands of Canadian dollars)

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

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

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

RONA inc.**Consolidated Statements of Cash Flows**

Years ended December 30, 2012 and December 25, 2011

(in thousands of Canadian dollars)

	2012	2011
Operating activities		
Income (loss) before income tax expense	\$ 26,052	\$ (60,910)
Adjustments:		
Depreciation, amortization and impairment of non-financial assets (Note 5.2)	115,735	149,736
Change in provision for restructuring costs	23,135	-
Change in fair value of derivative financial instruments	(628)	(159)
Net gains on disposal of assets	(3,973)	(1,123)
Goodwill impairment (Note 14)	-	117,000
Stock-based compensation expense (recovery) (Note 5.3)	3,676	(2,684)
Difference between amounts paid for post-employment benefits and current year expenses	(3,036)	(2,855)
Other	(1,223)	3,308
	<u>159,738</u>	<u>202,313</u>
Net change in working capital (Note 8)	(14,877)	66,682
	<u>144,861</u>	<u>268,995</u>
Interest received	3,825	3,898
Income taxes paid	(23,139)	(42,648)
Cash flow from operating activities	<u>125,547</u>	<u>230,245</u>
Investing activities		
Business acquisitions (Note 9)	(11,808)	(47,707)
Acquisition of property, plant and equipment (Note 12)	(37,971)	(70,198)
Acquisition of intangible assets (Note 15)	(48,403)	(39,225)
Acquisition of other financial assets	(2,968)	(6,049)
Proceeds on disposal of property, plant and equipment	16,498	10,216
Proceeds on disposal of other financial assets	2,612	4,765
Interest received	813	1,365
Cash flow from investing activities	<u>(81,227)</u>	<u>(146,833)</u>
Financing activities		
Bank loans	4,073	(326)
Net change in credit facilities	80,651	91,249
Other long-term debt	261	863
Financing costs	(80)	(2,541)
Repayment of other long-term debt	(19,991)	(33,886)
Repurchase of debentures	-	(283,171)
Proceeds from issue of common shares	5,676	4,406
Proceeds from issue of preferred shares	-	172,500
Fees related to issue of preferred shares	-	(5,484)
Repurchase of common shares (Note 22)	(66,767)	(31,768)
Cash dividends paid by a subsidiary to non-controlling interests	-	(3,920)
Dividends on common shares	(17,191)	(18,253)
Dividends on preferred shares	(9,062)	(5,458)
Interest paid	(18,033)	(26,051)
Cash flow from financing activities	<u>(40,463)</u>	<u>(141,840)</u>
Net increase (decrease) in cash	3,857	(58,428)
Cash, beginning of year	17,149	75,577
Cash, end of year	<u>\$ 21,006</u>	<u>\$ 17,149</u>

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

RONA inc.
Consolidated Statements of Financial Position
as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

	2012 December 30	2011 December 25
Assets		
Current		
Cash	\$ 21,006	\$ 17,149
Trade and other receivables (Note 10)	363,152	370,094
Other financial assets (Note 11)	1,440	1,468
Current tax assets	15,145	7,616
Inventory (Note 6)	890,437	840,287
Prepaid expenses	20,162	20,836
Current assets	<u>1,311,342</u>	<u>1,257,450</u>
Non-current		
Other financial assets (Note 11)	15,045	13,617
Property, plant and equipment (Note 12)	813,901	874,246
Non-current assets held for sale (Note 13)	22,898	10,455
Goodwill (Note 14)	428,180	426,968
Intangible assets (Note 15)	143,725	126,968
Other non-current assets (Note 16)	5,114	5,435
Deferred tax assets (Note 7)	66,253	65,239
Total assets	<u>\$ 2,806,458</u>	<u>\$ 2,780,378</u>
Liabilities		
Current		
Bank loans	\$ 11,332	\$ 4,377
Trade and other payables	495,698	487,864
Dividends payable	2,258	2,527
Derivative financial instruments (Note 25)	3,553	691
Provisions (Note 20)	16,335	6,947
Instalments on long-term debt (Note 18)	11,683	20,257
Current liabilities	<u>540,859</u>	<u>522,663</u>
Non-current		
Long-term debt (Note 18)	305,020	232,073
Other non-current liabilities (Note 19)	34,741	33,653
Provisions (Note 20)	17,712	3,606
Deferred tax liabilities (Note 7)	24,550	32,759
Total liabilities	<u>922,882</u>	<u>824,754</u>
Equity		
Share capital (Note 22)	764,882	793,416
Retained earnings	1,071,426	1,115,801
Contributed surplus	12,521	11,386
Accumulated other comprehensive income	(2,597)	(505)
Total equity attributable to owners of RONA inc.	<u>1,846,232</u>	<u>1,920,098</u>
Non-controlling interests	37,344	35,526
Total equity	<u>1,883,576</u>	<u>1,955,624</u>
Total liabilities and equity	<u>\$ 2,806,458</u>	<u>\$ 2,780,378</u>

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

On behalf of the Board,

(s) Réal Brunet

Réal Brunet
Chairman of the Audit Committee

(s) Robert Chevrier

Robert Chevrier
Executive Chairman of the Board

RONA inc.
Notes to Consolidated Financial Statements

as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

1. Reporting entity

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

The Corporation's consolidated financial statements for the year ended December 30, 2012 and December 25, 2011 include financial data for the Corporation and its subsidiaries (collectively referred to as the "Corporation" and individually referred to as the "Corporation's entities") and the Corporation's share of the jointly controlled entities.

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

2. Basis of presentation

(a) Declaration of conformity

These consolidated financial statements for the year ended December 30, 2012 were prepared in accordance with International Financial Reporting Standards ("IFRS").

The accounting policies described in Note 3 have been applied on a consistent basis for all reported periods, unless otherwise indicated.

The consolidated financial statements for the year ended December 30, 2012 (including comparative figures) were approved by the Board of Directors on February 20, 2013.

(b) Measurement basis

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

(c) Functional and reporting currency

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

(d) Use of estimates and judgments

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

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

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

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

(e) Fiscal year

The Corporation's fiscal year ends on the last Sunday of December. The fiscal years ended December 30, 2012 and December 25, 2011 included 53 and 52 weeks of operations, respectively.

2. Basis of presentation (continued)

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

In November 2009, the IASB issued new IFRS 9, *Financial Instruments*, that will replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard provides guidance on the classification and measurement of financial assets. In October 2010, the IASB amended IFRS 9 to add guidance on the classification and measurement of financial liabilities, and requirements for the derecognition of financial assets and financial liabilities. In December 2011, the IASB amended the transition date of IFRS 9, which requires the application of IFRS 9 for periods beginning on or after January 1, 2015. The previous transition date was January 1, 2013.

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

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

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

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

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

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

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

These standards, excluding the amended IAS 1 and IFRS 9, are effective for periods beginning on or after January 1, 2013. The Corporation is currently determining the effect of adopting these new standards on its consolidated financial statements. Certain other standards were issued but have no impact on the Corporation.

3. Significant accounting policies

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

(a) Basis of consolidation

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

(i) Subsidiaries

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

(ii) Jointly controlled entities

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

(iii) Eliminated transactions in the financial statements

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

3. Significant accounting policies (continued)

(a) Basis of consolidation (continued)

(iv) Non-controlling interests

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

(b) Business combinations

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

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

(c) Revenue recognition

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

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

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

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

(d) Inventory valuation

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

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

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

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

(e) Vendor rebates

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

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

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

RONA inc.
Notes to Consolidated Financial Statements

as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

3. Significant accounting policies (continued)

(f) Customer rebates

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

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

(g) Property, plant and equipment

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

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

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

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

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

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

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

(h) Non-current assets held for sale

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

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

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

(i) Intangible assets

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

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

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

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

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

3. Significant accounting policies (continued)

(j) Goodwill

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

(k) Impairment of non-current assets

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

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

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

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

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

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

(l) Leased assets

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

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

(m) Other non-current assets

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

(n) Income taxes

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

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

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

3. Significant accounting policies (continued)

(n) Income taxes (continued)

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

(o) Provisions, contingent liabilities and contingent assets

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

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

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

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

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

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

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

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

(p) Other non-current liabilities

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

(q) Stock option plans

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

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

(r) Share unit plan for officers

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

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

3. Significant accounting policies (continued)

(s) Share unit plan for directors

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

(t) Foreign currency

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

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

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

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

(u) Financial instruments

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

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

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

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

(v) Derivative financial instruments and cash flow hedges

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

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

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

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

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

3. Significant accounting policies (continued)

(w) Equity

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

Treasury shares represent the cost of the Corporation's shares held by joint ventures.

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

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

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

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

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

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

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

(x) Employee benefits

Defined benefit plans

The asset or liability recognized in the statement of financial position for the defined benefit plans is the present value of the defined benefit obligations at the reporting date less the fair value of plan assets and certain adjustments, as described below:

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

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

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

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

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

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

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

Defined contribution plans

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

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

RONA inc.
Notes to Consolidated Financial Statements

as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

3. Significant accounting policies (continued)

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

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

Diluted income per share is 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 year or the issuance date.

(z) Segment information

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

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

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

4. Revenues

	2012	2011
Sales of goods	\$ 4,811,955	\$ 4,739,484
Rendering of services	47,118	41,027
Royalties received	24,943	24,073
Total revenues	\$ 4,884,016	\$ 4,804,584

5. Supplemental information on income and charges

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

	2012	2011
Revenues	\$ 4,884,016	\$ 4,804,584
Cost of sales (Note 6)	(3,544,833)	(3,436,636)
Gross profit	1,339,183	1,367,948
Selling, general and administrative expenses	(1,283,712)	(1,232,747)
Net gains on disposal of assets	3,973	1,123
Other income	26,119	20,576
Operating profit before goodwill impairment, restructuring costs, impairment of non-financial assets and other charges	\$ 85,563	\$ 156,900

5.2 Depreciation, amortization and impairment of non-financial assets

	2012	2011
Depreciation of property, plant and equipment	\$ 69,571	\$ 80,348
Depreciation of leasehold property included in property, plant and equipment	565	1,860
Amortization of intangible assets	26,867	23,831
Amortization of other non-current assets	1,193	877
Impairment of non-financial assets	17,539	42,820
Total depreciation, amortization and impairment of non-financial assets	\$ 115,735	\$ 149,736

5.3 Employee benefits expense

	2012	2011
Salaries	\$ 491,835	\$ 477,674
Defined benefit expense	392	892
Defined contribution expense (Note 26)	12,810	10,473
Stock-based compensation expense (recovery) (Note 23)	3,676	(2,684)
Severance	17,657	9,254
Other fringe benefits	105,166	105,037
Total employee benefits expense	\$ 631,536	\$ 600,646

RONA inc.
Notes to Consolidated Financial Statements
as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

5. Supplemental information on income and charges (continued)

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

During 2011, the Corporation undertook major initiatives to improve its efficiency, optimize its capital structure and increase its return on equity. In this context, in 2012, the Corporation continued to implement certain aspects of its business plan undertaken in 2011.

Total restructuring costs, impairment of non-financial assets and other charges were as follows:

	2012	2011
Costs relating to the liquidation of store inventory	\$ 7,507	\$ 18,700
Severance (Note 20)	3,516	-
Impairment of non-financial assets	6,254	42,820
Onerous contracts (Note 20)	25,043	-
Other charges	1,948	9,823
Restructuring costs, impairment of non-financial assets and other charges	\$ 44,268	\$ 71,343

6. Inventory

For the year ended December 30, 2012, an amount of \$3,544,833 in inventory, before restructuring charges, was expensed in the consolidated income statement (\$3,436,636 in 2011).

For the year ended December 30, 2012, an inventory write-down charge of \$28,772 (\$49,363 in 2011) of which \$7,507 (\$18,700 in 2011) is included in restructuring costs (Note 5.4) was recognized in the consolidated income statement. No reversal of previous write-downs was recognized.

7. Income tax

Income tax expense

The relationship between the expected tax expense based on the Corporation's effective tax rate 26.90% as at December 30, 2012 (27.31% as at December 25, 2011) and the reported tax expense in income can be reconciled as follows, also showing major components of tax expense:

	2012	2011
Income before income tax expense	\$ 26,052	\$ (60,910)
Corporation's tax rate	26.90%	27.31%
Expected tax expense	7,008	(16,631)
Non-deductible (taxable) items	(262)	324
Non-deductible goodwill impairment	-	29,552
Other	223	618
Income tax expense	\$ 6,969	\$ 13,863
Current tax expense		
Current tax expense for the year	\$ 14,629	\$ 30,611
Prior period adjustments	(6)	24
Total current tax expense	\$ 14,623	\$ 30,635
Deferred tax expense		
Recognition and reversal of temporary differences	\$ (7,743)	\$ (17,139)
Decrease in tax rate	89	367
Total deferred tax expense	\$ (7,654)	\$ (16,772)
Total income tax expense	\$ 6,969	\$ 13,863
Income taxes recognized in other comprehensive income		
	2012	2011
Cash flow hedges		
Before tax	\$ (2,863)	\$ (691)
Deferred tax income	770	186
Net of tax	\$ (2,093)	\$ (505)
Actuarial losses		
Before tax	\$ (3,674)	\$ (3,770)
Deferred tax income	971	995
Net of tax	\$ (2,703)	\$ (2,775)

RONA inc.

Notes to Consolidated Financial Statements

as at December 30, 2012 and December 25, 2011

(in thousands of Canadian dollars)

7. Income tax (continued)

The consolidated effective tax rate was a rate of 26.75% and a negative tax rate of 22.76%, respectively, for the years ended December 30, 2012 and December 25, 2011. The change in the effective tax rate is primarily attributable to the change in the Corporation's combined statutory rate and the impairment of non-deductible goodwill in 2011.

Deferred tax assets and liabilities

Recognized deferred tax assets (liabilities):

	As at December 30, 2012		
	Assets	Liabilities	Net
Non-capital losses	\$ 13,045	\$ 1,292	\$ 14,337
Capital losses	441	20	461
Direct costs related to business acquisitions	103	402	505
Expenses not deducted	22,219	3,406	25,625
Property, plant and equipment and intangible assets	23,509	(22,294)	1,215
Goodwill	(1,748)	(7,221)	(8,969)
Share issue expenses	–	1,280	1,280
Deferred revenues	6,702	–	6,702
Incentive payments received	–	(2,017)	(2,017)
Pension plans	800	881	1,681
Derivatives	956	11	967
Other	226	(310)	(84)
Net deferred tax assets (liabilities)	\$ 66,253	\$ (24,550)	\$ 41,703

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

Changes in deferred tax assets (liabilities) during the year:

	Balance as at December 25, 2011	Income (loss)	Business acquisitions	Other comprehensive income	Other	Balance as at December 30, 2012
Non-capital losses	\$ 13,839	\$ 498	\$ –	\$ –	\$ –	\$ 14,337
Capital losses	183	278	–	–	–	461
Direct costs related to business acquisitions	848	(343)	–	–	–	505
Expenses not deducted	10,655	14,970	–	–	–	25,625
Property, plant and equipment and intangible assets	3,053	(1,619)	(219)	–	–	1,215
Goodwill	(7,302)	(1,667)	–	–	–	(8,969)
Share issue expenses	1,970	(690)	–	–	–	1,280
Deferred revenue	6,826	(124)	–	–	–	6,702
Incentive payments received	(2,284)	267	–	–	–	(2,017)
Pension plans	1,857	(1,147)	–	971	–	1,681
Derivatives	273	(76)	–	770	–	967
Other	2,562	(2,693)	–	–	47	(84)
Net deferred tax assets	\$ 32,480	\$ 7,654	\$ (219)	\$ 1,741	\$ 47	\$ 41,703

RONA inc.
Notes to Consolidated Financial Statements
as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

7. Income tax (continued)

Changes in deferred tax assets (liabilities) during the year (continued):

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

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

8. Cash flow information

The changes in working capital items are detailed as follows:

	2012	2011
Trade and other receivables	\$ 4,926	\$ (69,688)
Inventory	(44,425)	84,183
Prepaid expenses	789	(2,715)
Derivative financial instruments	1,399	(387)
Trade and other payables	22,075	53,900
Provisions ^(a)	359	1,389
	\$ (14,877)	\$ 66,682

^(a) Excludes the change in provision for restructuring costs which is presented as a separate line item in the consolidated statement of cash flows.

9. Business acquisitions

On October 29, 2012, the Corporation acquired the assets of a dealer located in Alberta, operating in the retail and commercial segment.

On April 2, 2012, the Corporation acquired the assets of a dealer located in Quebec, operating in the retail and commercial segment.

On January 6, 2012, the Corporation acquired all of the shares of a dealer located in Quebec, operating in the retail and commercial segment.

During 2011, the Corporation acquired five companies in the retail and commercial segment and one company in the distribution segment through share or asset purchases.

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

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

RONA inc.
Notes to Consolidated Financial Statements
as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

9. Business acquisitions (continued)

The consideration paid for these acquisitions amounted to \$15,067 (\$56,195 in 2011). Direct acquisition costs of \$119 were recognized in selling, general and administrative expenses for the year ended December 30, 2012 (\$666 in 2011). The Corporation financed these acquisitions from its available cash and existing credit facilities.

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

	2012	2011
Trade and other receivables	\$ 2,478	\$ 6,298
Inventory	6,579	19,956
Other current assets	156	244
Property, plant and equipment	10,007	30,040
Goodwill on acquisition	1,212	16,777
Intangible assets	-	45
Current liabilities	(5,114)	(15,251)
Long-term debt	(32)	(1,144)
Deferred tax liabilities	(219)	(770)
Cost of acquisitions	15,067	56,195
Less: Balances of purchase prices	(3,259)	(8,488)
Cash consideration paid	\$ 11,808	\$ 47,707

The Corporation does not expect the goodwill to be deductible for tax purposes (\$6,989 in 2011).

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

The preliminary purchase price allocation of the 2012 acquisitions may be subject to adjustment pending completion of the final valuations.

10. Trade and other receivables

	2012 As at December 30	2011 As at December 25
Trade accounts		
Retail and commercial customers	\$ 286,622	\$ 260,319
Affiliated and franchised stores	65,773	93,927
Joint ventures	2,087	3,510
	354,482	357,756
Other accounts receivable	8,670	12,338
	\$ 363,152	\$ 370,094

11. Other financial assets

	2012 As at December 30	2011 As at December 25
Companies subject to significant influence		
Shares, at equity value	\$ 4,986	\$ 4,845
Loans and advances, at cost		
Mortgages and term notes, weighted average rate of 5.94% (6.7% in 2011), maturing at various dates until 2019	11,499	10,240
	16,485	15,085
Other current financial assets	1,440	1,468
Other non-current financial assets	\$ 15,045	\$ 13,617

Interest income related to the loans and advances presented above amounted to \$1,602 (\$1,687 in 2011) and is included in Finance income on the consolidated income statement.

RONA inc.
Notes to Consolidated Financial Statements
as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

12. Property, plant and equipment

	Land and parking lots	Buildings	Leasehold improvements	Furniture and equipment	Computer hardware	Projects in process ^(a)	Assets under finance leases			Total
							Land for future development	Furniture and equipment	Computer hardware	
Cost	\$ 313,063	\$ 362,280	\$ 245,235	\$ 424,364	\$ 112,082	\$ 6,127	\$ 39,445	\$ 7,096	\$ 1,150	\$ 1,510,842
Accumulated depreciation	30,682	90,823	149,222	269,526	89,162	–	–	6,038	1,143	636,596
Balance, December 25, 2011	<u>282,381</u>	<u>271,457</u>	<u>96,013</u>	<u>154,838</u>	<u>22,920</u>	<u>6,127</u>	<u>39,445</u>	<u>1,058</u>	<u>7</u>	<u>874,246</u>
Depreciation for the year	(2,645)	(13,171)	(11,901)	(32,469)	(9,385)	–	–	(561)	(4)	(70,136)
Acquisitions through business combinations	3,734	5,510	–	752	11	–	–	–	–	10,007
Other acquisitions	884	1,512	5,580	16,588	7,436	5,948	23	–	–	37,971
Disposals of property, plant and equipment	(31)	(77)	(15)	(552)	(15)	–	–	–	–	(690)
Transfers between classes of property, plant and equipment	–	1,403	27	3,243	142	(4,625)	–	(187)	(3)	–
Transfers between property, plant and equipment and non-current assets held for sale	(14,551)	(9,577)	(149)	–	–	–	–	–	–	(24,277)
Impairment (Note 5.2)	(901)	(4,785)	(6,016)	(1,222)	(151)	–	–	(4)	–	(13,079)
Other changes	(82)	(106)	(120)	179	451	(456)	–	(7)	–	(141)
Total changes	<u>(13,592)</u>	<u>(19,291)</u>	<u>(12,594)</u>	<u>(13,481)</u>	<u>(1,511)</u>	<u>867</u>	<u>23</u>	<u>(759)</u>	<u>(7)</u>	<u>(60,345)</u>
Balance, December 30, 2012	<u>268,789</u>	<u>252,166</u>	<u>83,419</u>	<u>141,357</u>	<u>21,409</u>	<u>6,994</u>	<u>39,468</u>	<u>299</u>	<u>–</u>	<u>813,901</u>
Cost	300,276	353,314	247,269	448,498	118,938	6,994	39,468	4,352	961	1,520,070
Accumulated depreciation	31,487	101,148	163,850	307,141	97,529	–	–	4,053	961	706,169
Balance, December 30, 2012	<u>\$ 268,789</u>	<u>\$ 252,166</u>	<u>\$ 83,419</u>	<u>\$ 141,357</u>	<u>\$ 21,409</u>	<u>\$ 6,994</u>	<u>\$ 39,468</u>	<u>\$ 299</u>	<u>\$ –</u>	<u>\$ 813,901</u>

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

For the year ended December 30, 2012, there was no interest capitalized in property, plant and equipment (\$524 in 2011). The weighted average rate used in determining borrowing costs capitalized was 5.44% in 2011.

RONA inc.
Notes to Consolidated Financial Statements
as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

12. Property, plant and equipment (continued)

	Land and parking lots	Buildings	Leasehold improvements	Furniture and equipment	Computer hardware	Projects in process ^(a)	Assets under finance leases			Total
							Land for future development	Furniture and equipment	Computer hardware	
Cost	\$ 271,475	\$ 307,212	\$ 235,077	\$ 397,191	\$ 100,434	\$ 59,132	\$ 37,843	\$ 12,704	\$ 15,428	\$ 1,436,496
Accumulated depreciation	27,820	75,149	115,218	231,288	76,572	1,182	–	9,011	15,212	551,452
Balance, December 26, 2010	243,655	232,063	119,859	165,903	23,862	57,950	37,843	3,693	216	885,044
Depreciation for the year	(2,856)	(12,413)	(16,266)	(39,018)	(9,818)	–	–	(1,650)	(187)	(82,208)
Acquisitions through business combinations	10,950	13,422	3	5,359	306	–	–	–	–	30,040
Other acquisitions	2,448	5,460	7,419	32,202	11,561	9,475	1,633	–	–	70,198
Disposals of property, plant and equipment	(307)	(965)	(109)	(382)	(85)	–	–	(460)	–	(2,308)
Transfers between classes of property, plant and equipment	37,861	32,533	32	2,315	340	(73,113)	71	(39)	–	–
Transfers between property, plant and equipment and non-current assets held for sale	(594)	(1,335)	–	–	–	–	–	–	–	(1,929)
Impairment (Note 5.2)	–	(1,136)	(14,947)	(11,908)	(1,727)	–	–	–	–	(29,718)
Other changes	(8,776)	3,828	22	367	(1,519)	11,815	(102)	(486)	(22)	5,127
Total changes	38,726	39,394	(23,846)	(11,065)	(942)	(51,823)	1,602	(2,635)	(209)	(10,798)
Balance, December 25, 2011	282,381	271,457	96,013	154,838	22,920	6,127	39,445	1,058	7	874,246
Cost	313,063	362,280	245,235	424,364	112,082	6,127	39,445	7,096	1,150	1,510,842
Accumulated depreciation	30,682	90,823	149,222	269,526	89,162	–	–	6,038	1,143	636,596
Balance, December 25, 2011	\$ 282,381	\$ 271,457	\$ 96,013	\$ 154,838	\$ 22,920	\$ 6,127	\$ 39,445	\$ 1,058	\$ 7	\$ 874,246

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

13. Non-current assets held for sale

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

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

	2012		2011	
	As at December 30		As at December 25	
Balance at beginning	\$	10,455	\$	16,474
Additions		24,277		5,632
Disposals		(11,834)		(7,948)
Reclassification to property, plant and equipment		–		(3,703)
Balance at end		22,898		10,455
Non-current assets held for sale				
Land		13,154		9,392
Buildings		9,744		1,063
Total	\$	22,898	\$	10,455

RONA inc.
Notes to Consolidated Financial Statements
as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

14. Goodwill

	2012 As at December 30	2011 As at December 25
Balance, beginning of year	\$ 426,968	\$ 529,094
Acquisition through business combinations (Note 9)	1,212	16,777
Impairment	-	(117,000)
Adjustment related to the purchase price allocation of an acquisition	-	(1,903)
Balance, end of year	<u>\$ 428,180</u>	<u>\$ 426,968</u>

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

	2012 As at December 30	2011 As at December 25
Corporate and franchised stores	\$ 187,692	\$ 187,056
Commercial and professional stores	130,416	130,416
Distribution	110,072	109,496
Goodwill allocation	<u>\$ 428,180</u>	<u>\$ 426,968</u>

The Corporation performed its annual test for goodwill impairment as at December 30, 2012. The carrying amounts of the CGU groups have been determined using the value in use. To determine value in use, five-year cash flow forecasts were prepared using the budget and strategic plan approved by the Board of Directors. Cash flow forecasts for periods beyond that of the budget and strategic plan were prepared using a stable growth rate for future periods, not exceeding the rate of long term average growth of the Corporation's sectors of activity. These forecasts were based on historical data and future trends expected by the Corporation.

For the impairment test carried out as at December 30, 2012, management's key assumptions were average annual increases in same-store sales of 1.3% (average of 2.25% as at December 25, 2011) for the first five years and thereafter at 2.25% (2.25% as at December 25, 2011).

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

Forecasted cash flows are discounted using pre-tax rates ranging from 11.8% to 11.9% (11.8% to 11.9% in 2011) which reflect current market assessments of the time value of money and the risks specific to the asset.

The fair value of each CGU group was higher than its carrying amount. The most sensitive assumptions used in the impairment testing model include forecasted organic growth in sales and gross margins, weighted average cost of capital and the anticipated degree of attainment of returns from business transformation initiatives. Failure to meet certain of those assumptions could have an impact on the estimated recoverable values of the Corporation's CGU groups.

RONA inc.

Notes to Consolidated Financial Statements

as at December 30, 2012 and December 25, 2011

(in thousands of Canadian dollars)

15. Intangible assets

	Trademarks – useful life			Dealer recruitment costs	Customer relationships	Preferential price leases	Total
	Finite	Indefinite	Software				
Cost	\$ 2,174	\$ 2,721	\$ 242,671	\$ 23,341	\$ 450	\$ 418	\$ 271,775
Accumulated amortization	2,008	–	129,605	12,643	202	349	144,807
Balance, December 25, 2011	166	2,721	113,066	10,698	248	69	126,968
Amortization for the year	(132)	–	(21,556)	(5,087)	(23)	(69)	(26,867)
Other acquisitions	–	–	42,067	6,336	–	–	48,403
Impairment (Note 5.2)	–	–	(4,460)	–	–	–	(4,460)
Other changes	–	–	(92)	(227)	–	–	(319)
Total changes	(132)	–	15,959	1,022	(23)	(69)	16,757
Balance, December 30, 2012	34	2,721	129,025	11,720	225	–	143,725
Cost	2,174	2,721	284,985	26,991	450	418	317,739
Accumulated amortization	2,140	–	155,960	15,271	225	418	174,014
Balance, December 30, 2012	\$ 34	\$ 2,721	\$ 129,025	\$ 11,720	\$ 225	\$ –	\$ 143,725

	Trademarks – useful life			Dealer recruitment costs	Customer relationships	Preferential price leases	Total
	Finite	Indefinite	Software				
Cost	\$ 2,174	\$ 2,721	\$ 216,281	\$ 24,658	\$ 450	\$ 418	\$ 246,702
Accumulated amortization	1,574	–	103,027	13,540	180	158	118,479
Balance, December 26, 2010	600	2,721	113,254	11,118	270	260	128,223
Amortization for the year	(227)	–	(19,262)	(4,129)	(22)	(191)	(23,831)
Acquisitions through business combinations	–	–	45	–	–	–	45
Other acquisitions	–	–	33,578	5,647	–	–	39,225
Impairment (Note 5.2)	(207)	–	(12,895)	–	–	–	(13,102)
Other changes	–	–	(1,654)	(1,938)	–	–	(3,592)
Total changes	(434)	–	(188)	(420)	(22)	(191)	(1,255)
Balance, December 25, 2011	166	2,721	113,066	10,698	248	69	126,968
Cost	2,174	2,721	242,671	23,341	450	418	271,775
Accumulated amortization	2,008	–	129,605	12,643	202	349	144,807
Balance, December 25, 2011	\$ 166	\$ 2,721	\$ 113,066	\$ 10,698	\$ 248	\$ 69	\$ 126,968

Amortization

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

For the year ended December 30, 2012, capitalized interest on software amounted to \$568 (\$800 in 2011) and the weighted average rate used in determining borrowing costs capitalized was 3.84% (5.44% in 2011).

Intangible assets with indefinite useful lives

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

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

RONA inc.
Notes to Consolidated Financial Statements
as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

16. Other non-current assets

	2012	2011
	As at December 30	As at December 25
Credit facilities financing costs	\$ 2,089	\$ 3,199
Defined benefit assets (Note 26)	2,760	1,940
Other	265	296
Balance, end of year	<u>\$ 5,114</u>	<u>\$ 5,435</u>

Amortization of other non-current assets, included in depreciation, amortization and impairment of non-financial assets in the consolidated income statement, amounted to \$1,193 for the year ended December 30, 2012 (\$877 in 2011).

17. Bank loans

a) Other subsidiaries

Bank loans are secured by an assignment of certain assets, notably trade and other receivables, inventory and property, plant and equipment, in the amount of \$33,438 (\$32,423 in 2011). These bank loans bear interest at rates varying from prime rate to prime rate plus 2.00% and are renewable annually. As at December 30, 2012, the interest rates varied from 3.00% to 5.00% (3.00% to 3.50% in 2011). The amount authorized for these credit facilities was \$20,860 (\$19,060 in 2011) and the amount used was \$10,066 (\$4,795 in 2011).

b) Joint ventures

Bank loans are secured by an assignment of certain assets of joint ventures, notably trade and other receivables, inventory and property, plant and equipment. The Corporation's share of these assets amounted to \$5,765 (\$5,510 in 2011). These bank loans bear interest at rates varying from prime rate to prime rate plus 0.50% and are renewable annually. As at December 30, 2012, the interest rates varied from 3.00% to 3.50% (3.00% to 3.50% in 2011). The amount authorized for these credit facilities was \$11,500 (\$11,500 in 2011) and the amount used was \$3,765 (\$2,605 in 2011).

18. Long-term debt

	2012	2011
	As at December 30	As at December 25
Debentures, unsecured, par value \$116,829, rate of 5.40%, maturing in 2016 ^(a)	\$ 116,202	\$ 116,068
Credit facilities, at a weighted average rate of 3.03% (2.47% in 2011), maturing in 2016	171,900	91,249
Mortgage loans, secured by assets having a non-depreciated cost of \$106,907 (\$90,943 in 2011), rates varying from prime rate less 0.25% to 8.50% in 2012 (same rates in 2011), maturing on various dates until 2020	18,362	26,107
Obligations under finance leases, rates varying from 4.19% to 10.60% (same rates in 2011), maturing on various dates until 2017	816	1,592
Balances of purchase prices, rates varying from 0.00% to 6.00% (same rates in 2011), payable on various dates until 2015	9,423	16,314
Shares issued and fully paid		
Class D preferred shares (1,000,000 shares in 2011) ^(b)	-	1,000
	<u>316,703</u>	<u>252,330</u>
Instalments due within one year	11,683	20,257
	<u>\$ 305,020</u>	<u>\$ 232,073</u>

(a) Effective rate of 5.55%.

(b) During the year, the Corporation redeemed 1,000,000 shares (1,000,000 shares in 2011) for a cash consideration of \$1,000 (\$1,000 in 2011).

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

as at December 30, 2012 and December 25, 2011

(in thousands of Canadian dollars)

18. Long-term debt (continued)**Credit facilities**

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

Credit facilities can be used to issue letters of guarantee and credit letters for imports. As at December 30, 2012, the letters of guarantee issued amounted to \$1,152 (\$1,216 in 2011). For the year 2012, the weighted average interest rate on the revolving credit was 3.01% (2.2% in 2011).

Letters of credit

The Corporation also has an unsecured credit facility up to an amount of \$55,000, utilized for the issuance of letters of credit for imports. The terms and conditions to be respected are the same as for the revolving credit. As at December 30, 2012, the amount used was \$24,229 (\$40,046 in 2011).

Maturities for obligations under finance leases are as follows:

			2012
	Future minimum lease payments	Interest	Value of the future minimum lease payments
Less than 1 year	\$ 317	\$ 39	\$ 278
Between 1 – 5 years	589	51	538
Over 5 years	–	–	–
	\$ 906	\$ 90	\$ 816

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

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

	2012	2011
	As at December 30	As at December 25
Less than 1 year	\$ 11,405	\$ 17,881
Between 1 – 5 years	128,145	135,860
Over 5 years	4,437	5,748
	\$ 143,987	\$ 159,489

19. Other non-current liabilities

	2012	2011
	As at December 30	As at December 25
Deferred lease obligations due to straight-line basis	\$ 25,166	\$ 25,521
Defined benefit liability (Note 26)	9,575	8,132
Balance, end of year	\$ 34,741	\$ 33,653

20. Provisions and contingent liabilities

	Litigation	Onerous contracts	Product warranties	Restructuring ^(a)		Total
				Severance	Onerous contracts	
Balance, December 25, 2011	\$ 3,792	\$ 5,710	\$ 1,051	\$ –	\$ –	\$ 10,553
Provisions created during the year	2,097	1,630	533	3,516	25,043	32,819
Provisions used during the year	(1,177)	(2,042)	(143)	(2,090)	(3,334)	(8,786)
Provisions reversed during the year	(676)	–	–	–	–	(676)
Accretion expense	–	91	–	–	46	137
Balance, December 30, 2012	4,036	5,389	1,441	1,426	21,755	34,047
Current	4,036	1,711	1,441	1,426	7,721	16,335
Non-current	–	3,678	–	–	14,034	17,712
	\$ 4,036	\$ 5,389	\$ 1,441	\$ 1,426	\$ 21,755	\$ 34,047

(a) Refer to Note 5.4 for additional information.

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

Litigation

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

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

Onerous contracts

Restructuring

In 2012, following store closures, provisions for onerous contracts were recognized for non-cancellable operating leases for commercial stores which are no longer used at a weighted average discount rate of 4.25%. The provisions were estimated using contractual obligations at the time of initial recognition and sublease revenue assumptions based on market data. The remaining terms of these leases vary from one to 15 years.

Other

Following a store closure in 2008, a provision for onerous contracts was recognized for a non-cancellable operating lease for a commercial store which is no longer used at a weighted average discount rate of 4.25% (4.65% in 2011). The provision was estimated using the contractual obligation at the time of initial recognition and sublease revenue assumptions based on market data. The lease, still in effect, expires in 2024.

21. Guarantees, commitments and contingencies

Guarantees

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

Pursuant to the terms of inventory repurchase agreements, the Corporation is committed towards financial institutions to buy back the inventory of certain customers at an average of 65% of the cost of the inventories to a maximum of \$47,011. In the event of recourse, this inventory would be sold in the ordinary course of the Corporation's operations. These agreements have undetermined periods but may be cancelled by the Corporation with a 30-day advance notice. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low.

Commitments

The Corporation has entered into operating lease agreements expiring until 2028 which call for lease payments of \$51,270 for the rental of automotive equipment, computer hardware, distribution equipment, a warehouse and the building housing the head office and the distribution centre in Quebec.

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

as at December 30, 2012 and December 25, 2011

(in thousands of Canadian dollars)

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

The Corporation has also entered into operating lease agreements expiring until 2027 for corporate store space for minimum lease payments of \$858,612.

As part of the operation of big-box stores with dealer-owners, the Corporation is initially involved as a primary tenant and then signs a subleasing agreement with the dealer-owners. In this respect, the Corporation is committed under agreements expiring until 2023 which call for minimum lease payments of \$51,601 for the rental of premises and land on which the Corporation erected a building. In consideration thereof, the Corporation has signed subleasing agreements for an equivalent amount.

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

	2012		2011	
	Minimum lease payments	Minimum amounts Receivable	Minimum lease payments	Minimum amounts receivable
Less than 1 year	\$ 142,603	\$ 9,787	\$ 139,813	\$ 8,856
Between 1 – 5 years	450,782	26,494	465,248	27,598
Over 5 years	376,088	15,551	446,921	20,680
	\$ 969,473	\$ 51,832	\$ 1,051,982	\$ 57,134

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

Contingencies

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

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

22. Share capital**Authorized**

Unlimited number of shares

Common without par value

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

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

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

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

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

Class C preferred shares, issuable in series

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

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

RONA inc.
Notes to Consolidated Financial Statements
as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

22. Share capital (continued)

Issued and fully paid:

The following tables present changes in the number of outstanding shares and their carrying amounts:

	Common shares		Preferred shares ^(b)		Treasury shares		Deposits on common share subscriptions ^(a)		Share capital	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance, December 25, 2011	127,200,189	\$ 618,934	6,900,000	\$ 172,500	(76,981)	\$ (475)	–	\$ 2,457	134,023,208	\$ 793,416
Issuance in exchange for cash	6,866	75	–	–	–	–	–	–	6,866	75
Issuance under stock option plans	974,625	3,534	–	–	–	–	–	–	974,625	3,534
Issuance in exchange for common share subscription deposits	259,057	2,477	–	–	(3,844)	(48)	–	(2,429)	255,213	–
Repurchase of common shares	(7,032,700)	(34,257)	–	–	–	–	–	–	(7,032,700)	(34,257)
Deposits on common share subscriptions received	–	–	–	–	–	–	–	2,141	–	2,141
Deposits on common share subscriptions refunded	–	–	–	–	–	–	–	(27)	–	(27)
Balance, December 30, 2012	121,408,037	\$ 590,763	6,900,000	\$ 172,500	(80,825)	\$ (523)	–	\$ 2,142	128,227,212	\$ 764,882

- (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 30, 2012, the number of outstanding common shares would have increased by 204,194.
- (b) Class A preferred shares, Series 6 (Note 24).

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

- (a) Deposits on common share subscriptions represent amounts received during the year from affiliated and franchised merchants in accordance with commercial agreements. These deposits are exchanged for common shares on an annual basis. If the subscription deposits had been exchanged for common shares as at December 25, 2011, the number of outstanding common shares would have increased by 261,886.
- (b) Class A preferred shares, Series 6 (Note 24).

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

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

During the year ended December 30, 2012, the Corporation redeemed for cancellation a total of 7,032,700 common shares (3,370,300 in 2011) for a total cost of \$66,767 (\$31,768 in 2011). Of the total cost, \$34,257 (\$16,399 in 2011) represents the stated value of common shares. The remaining \$32,510 (\$15,369 in 2011) was recorded in retained earnings.

RONA inc.
Notes to Consolidated Financial Statements

as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

23. Stock-based compensation

Stock option plans

Stock option plan of May 1, 2002

On May 1, 2002, the Corporation adopted a stock option plan for designated senior executives pursuant to which options for a maximum of 3,740,000 common shares may be granted. Options granted under the plan may be exercised since the Corporation made a public share offering on November 5, 2002. As at December 30, 2012, the exercise price of the 2,920,000 options granted upon adoption of the plan was \$3.47 and all options had been exercised (1,960,000 options in 2011). The fair value of each option granted was estimated at the grant date using the Black-Scholes option pricing model.

No compensation cost was expensed with respect to this plan for the years ended December 30, 2012 and December 25, 2011.

Stock option plan of October 24, 2002

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

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

As at December 30, 2012, the 3,891,887 options granted (3,242,352 options in 2011) have exercise prices ranging from \$9.38 to \$26.87 in 2012 (\$9.97 to \$26.87 in 2011) and of this number, 187,050 options have been exercised (172,425 options in 2011), 619,758 options have expired (same number of options in 2011) and 1,091,869 options have been forfeited (835,994 options in 2011).

The weighted average fair value of stock options granted of \$2.79 for the year ended December 30, 2012 (\$4.64 in 2011) was estimated for each option tranche at the grant date using the Black-Scholes option pricing model on the basis of the following weighted average assumptions for the options granted during the period:

	<u>2012</u>	<u>2011</u>
Share price at date of grant	\$9.83	\$13.61
Risk-free interest rate	1.48 to 1.96%	1.67 to 3.35%
Expected share price volatility	27.11 to 28.62%	27.60 to 28.13%
Expected dividend rate	1.24 to 1.50%	1.00 to 1.39%
Expected life	7 to 10 years	7 to 10 years
Exercise price at date of grant	\$9.90	\$13.65

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

Compensation cost expensed with respect to this plan amounted to \$1,183 for the year ended December 30, 2012 (\$1,034 in 2011).

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

	<u>As at December 30, 2012</u>		<u>As at December 25, 2011</u>	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Outstanding, beginning of year	2,574,175	\$ 10.32	2,727,794	\$ 9.99
Granted	649,535	9.90	384,900	13.65
Exercised	(974,625)	3.58	(255,525)	5.77
Forfeited	(255,875)	12.55	(282,994)	15.74
Outstanding, end of year	<u>1,993,210</u>	<u>13.19</u>	<u>2,574,175</u>	<u>10.32</u>
Options exercisable, end of year	<u>1,264,110</u>	<u>\$ 14.29</u>	<u>1,824,200</u>	<u>\$ 9.05</u>

RONA inc.
Notes to Consolidated Financial Statements
as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

23. Stock-based compensation (continued)

Stock option plans (continued)

The weighted average price of the common shares acquired by option holders having exercised 974,625 options (255,525 options in 2011) for the year ended December 30, 2012 was \$9.44 (\$11.62 in 2011).

The following table summarizes information relating to stock options outstanding as at December 30, 2012:

Exercise price	Expiration date	Options outstanding	Options exercisable
\$ 9.38	March 5, 2022	380,400	98,400
\$ 9.97	September 21, 2021	60,000	15,000
\$ 10.62	March 11, 2019	307,300	268,250
\$ 11.15	November 19, 2022	50,000	-
\$ 11.33	November 20, 2022	128,435	-
\$ 14.18	March 1, 2018	129,475	129,475
\$ 14.29	December 16, 2013	322,200	322,200
\$ 14.33	March 7, 2021	212,475	92,010
\$ 15.44	March 9, 2020	232,575	168,425
\$ 20.27	December 22, 2014	71,500	71,500
\$ 23.58	March 8, 2017	98,850	98,850
		1,993,210	1,264,110

Share unit plan for officers

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

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

	2012 As at December 30	2011 As at December 25
Number of restricted share units:		
Outstanding, beginning of year	1,117,225	935,325
Granted	761,354	419,000
Expired	(243,341)	(113,000)
Forfeited	(524,061)	(115,684)
Paid	(128,809)	(8,416)
Outstanding, end of year	982,368	1,117,225

For the year ended December 30, 2012, an expense of \$677 was recorded in the consolidated income statement (recovery of \$3,968 in 2011).

RONA inc.
Notes to Consolidated Financial Statements

as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

23. Stock-based compensation (continued)

Share unit plan for directors

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

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

	2012 As at December 30	2011 As at December 25
Number of deferred share units:		
Balance, beginning of year	234,968	172,781
Granted	133,984	77,877
Paid	(58,824)	(15,690)
Balance, end of year	310,128	234,968

The expense recorded in the consolidated income statement for the year ended December 30, 2012 amounted to \$1,816 (\$250 in 2011).

24. Capital disclosures

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

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

As at December 30, 2012, the Corporation's net debt-to-capital ratio was 14.02% (10.91% in 2011).

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

Dividends on common shares

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

At its February 22, 2012 meeting, RONA's Board of Directors declared a semi-annual dividend of \$0.07 per common share, which was paid on March 26, 2012 to shareholders of record on March 9, 2012.

At its August 7, 2012 meeting, RONA's Board of Directors declared a semi-annual dividend of \$0.07 per common share, which was paid on September 25, 2012 to shareholders of record on September 10, 2012.

Dividends on preferred shares

During the year ended December 30, 2012, the following dividends were declared on the Series 6, Class A preferred shares, adjusted every five years:

At its February 22, 2012 meeting, RONA's Board of Directors declared a cumulative quarterly dividend of \$0.3227 per share which was paid on March 30, 2012 to shareholders of record on March 15, 2012.

At its May 9, 2012 meeting, RONA's Board of Directors declared a cumulative quarterly dividend of \$0.3299 per share which was paid on July 2, 2012 to shareholders of record on June 15, 2012.

At its August 7, 2012 meeting, RONA's Board of Directors declared a cumulative quarterly dividend of \$0.3299 per share which was paid on October 1, 2012 to shareholders of record on September 14, 2012.

At its November 6, 2012 meeting, RONA's Board of Directors declared a cumulative quarterly dividend of \$0.3300 per share which was paid on December 31, 2012 to shareholders of record on December 17, 2012.

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

24. Capital disclosures (continued)

Credit facilities

The Corporation's credit facilities include certain covenants affecting, among others, the leverage ratio and the interest coverage ratios. These ratios are submitted to the Board of Directors each quarter. The Corporation is in compliance with the ratios for the years ended December 30, 2012 and December 25, 2011. Other than covenants related to its credit facilities, the Corporation is not subject to any other externally imposed capital requirements.

25. Financial instruments and risk management

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

	As at December 30, 2012		As at December 25, 2011	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and receivables				
Cash	\$ 21,006	\$ 21,006	\$ 17,149	\$ 17,149
Trade and other receivables	363,152	363,152	370,094	370,094
Loans and advances	11,499	11,499	10,240	10,233
Other financial liabilities				
Bank loans	11,332	11,332	4,377	4,377
Trade and other payables	495,698	495,698	487,864	487,864
Dividends payable	2,258	2,258	2,527	2,527
Debentures	116,202	123,652	116,068	113,816
Obligations under finance leases	816	816	1,592	1,592
Mortgage loans and balances of purchase prices	27,785	27,021	42,421	41,501
Credit facility	171,900	171,900	91,249	91,249
Preferred shares	-	-	1,000	1,000
Financial liabilities at fair value designated as cash flow hedges				
Derivative financial instruments	3,553	3,553	691	691

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

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

Realized gains or losses of \$629 (\$159 in 2011) in respect of derivative financial instruments designated as cash flow hedges have been classified in income and recognized in the statement of income on the same line as the hedged item, i.e. in the cost of sales.

Fair value hierarchy

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

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

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

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

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

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

as at December 30, 2012 and December 25, 2011

(in thousands of Canadian dollars)

25. Financial instruments and risk management (continued)**Finance income and finance costs**

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

	2012	2011
Interest on trade and other receivables	\$ 3,731	\$ 3,575
Interest on other financial assets	1,602	1,687
Total finance income	\$ 5,333	\$ 5,262
Interest on long-term debt	\$ 18,473	\$ 22,613
Interest on bank loans	2,103	2,276
Finance costs related to repurchase of debentures	-	9,840
Total finance costs	\$ 20,576	\$ 34,729

Objectives and methods relating to risk management

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

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

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

Credit risk

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

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

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

The aging of trade receivables is as follows:

	2012 As at December 30	2011 As at December 25
Current	\$ 247,051	\$ 243,546
Past due 0 - 30 days	49,470	58,925
Past due 31-120 days	38,033	44,647
Past due over 121 days	34,676	26,465
Trade receivables	369,230	373,583
Less: allowance for doubtful accounts	14,748	15,827
	\$ 354,482	\$ 357,756

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

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

	2012	2011
Balance, beginning of year	\$ 15,827	\$ 15,090
Doubtful accounts (recovery) expense	(1,079)	737
Balance, end of year	\$ 14,748	\$ 15,827

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

as at December 30, 2012 and December 25, 2011

(in thousands of Canadian dollars)

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

As at December 30, 2012, the maximum exposure to credit risk is \$395,657 (\$397,483 as at December 25, 2011) which represents the carrying amount of financial instruments classified as assets, including cash in the amount of \$21,006 (\$17,149 as at December 25, 2011).

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

Liquidity risk

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

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

As at December 30, 2012

	Total	Less than 1 year	1 – 2 years	3 – 4 years	5 years and more
Debentures	\$ 140,854	\$ 6,291	\$ 12,583	\$ 121,980	\$ –
Mortgage loans and balances of purchase prices	27,785	11,392	7,141	3,644	5,608
Obligations under finance leases	907	317	421	169	–
Bank loans	11,332	11,332	–	–	–
Trade and other payables	492,813	492,813	–	–	–
Dividends payable	2,258	2,258	–	–	–
Derivative financial instruments	3,553	3,553	–	–	–
Total	\$ 679,502	\$ 527,956	\$ 20,145	\$ 125,793	\$ 5,608

As at December 25, 2011

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

Exchange risk and foreign currency sensitivity

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

As at December 30, 2012, the par value of foreign exchange forward contracts was U.S. \$85,800 (U.S. \$91,300 in 2011). The average rate of these contracts was 0.9978 (0.9986 in 2011) and they expire on various dates until June 2013.

On December 30, 2012, a 1% increase or decrease in the exchange rate of the Canadian dollar compared to the U.S. dollar, assuming that all other variables were constant, would have resulted in a \$103 (\$119 as at December 25, 2011) decrease or increase in the Corporation's net income and equity for the year ended December 30, 2012.

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

as at December 30, 2012 and December 25, 2011

(in thousands of Canadian dollars)

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

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

	2012 As at December 30	2011 As at December 25
Fixed rate instruments		
Financial assets	\$ -	\$ -
Financial liabilities	133,454	146,207
	<u>\$ (133,454)</u>	<u>\$ (146,207)</u>
Floating rate Instruments		
Financial assets	\$ 11,499	\$ 10,240
Financial liabilities	183,250	105,123
	<u>\$ (171,751)</u>	<u>\$ (94,883)</u>

On December 30, 2012, a 25-basis-point increase or decrease in interest rates, assuming that all other variables were constant, would have resulted in a \$310 (\$170 as at December 25, 2011) decrease or increase in the Corporation's net income and equity for the year ended December 30, 2012.

26. Post-employment benefits

The Corporation has eight defined contribution pension plans (seven in 2011) and five defined benefit pension plans (five in 2011). The most significant defined benefit plans are primarily based on final salaries. The Corporation does not offer post-employment medical insurance.

The total expense was \$12,810 for the year ended December 30, 2012 (\$10,473 in 2011) for defined contribution pension plans.

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

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

	2012 As at December 30	2011 As at December 25
Defined benefit obligations		
Balance, beginning of year	\$ 58,320	\$ 51,924
Current service cost	821	868
Contributions by plan participants	271	454
Interest cost	2,875	2,841
Benefits paid	(2,815)	(1,792)
Actuarial losses	5,426	3,643
Past service costs	1,748	382
Balance, end of year	<u>66,646</u>	<u>58,320</u>
Plan assets		
Fair value, beginning of year	53,710	51,614
Expected return on plan assets	3,304	3,199
Actuarial gains (losses)	595	(4,507)
Employer contributions	5,191	4,742
Contributions by plan participants	271	454
Benefits paid	(2,816)	(1,792)
Fair value, end of year	<u>60,255</u>	<u>53,710</u>
Funding status – deficit	(6,391)	(4,610)
Liability recognized for minimum funding requirements	(424)	(1,582)
Net defined benefit liability	<u>\$ (6,815)</u>	<u>\$ (6,192)</u>

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

RONA inc.

Notes to Consolidated Financial Statements

as at December 30, 2012 and December 25, 2011

(in thousands of Canadian dollars)

26. Post-employment benefits (continued)

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

	2012 As at December 30	2011 As at December 25
Defined benefit asset included in other non-current assets (Note 16)	\$ 2,760	\$ 1,940
Defined benefit liability included in other non-current liabilities (Note 19)	(9,575)	(8,132)
Net defined benefit liability	\$ (6,815)	\$ (6,192)

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

	2012 As at December 30	2011 As at December 25
Equity securities	42%	54%
Debt securities	58%	46%
	100%	100%

Total defined benefit pension cost recognized in net income for the years ended December 30, 2012 and December 25, 2011 was as follows:

	2012	2011
Current service cost	\$ 821	\$ 868
Finance cost related to obligations	2,875	2,841
Expected return on plan assets	(3,304)	(3,199)
Past service cost	-	382
Severance	1,748	-
Defined benefit cost	\$ 2,140	\$ 892

Amounts recognized in other comprehensive income

	2012	2011
Actuarial losses	\$ (4,831)	\$ (8,150)
Impact of asset limit	-	1,003
Impact of subsequent revaluation of liability in respect of minimum funding requirements	1,157	3,377
Total	(3,674)	(3,770)
Less : Deferred taxes	971	995
Amounts recognized in other comprehensive income	\$ (2,703)	\$ (2,775)

Cumulative amounts recognized in other comprehensive income

	Actuarial losses	Impact of asset limit	Revaluation of liability in respect of minimum funding requirements	Total
Balance, December 26, 2010	\$ (4,935)	\$ 416	\$ 1,311	\$ (3,208)
Amounts recognized in 2011	(8,150)	1,003	3,377	(3,770)
Balance, December 25, 2011	(13,085)	1,419	4,688	(6,978)
Amounts recognized in 2012	(4,831)	-	1,157	(3,674)
Balance, December 30, 2012	\$ (17,916)	\$ 1,419	\$ 5,845	\$ (10,652)

RONA inc.
Notes to Consolidated Financial Statements
as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

26. Post-employment benefits (continued)

Actuarial assumptions

The weighted average significant actuarial assumptions adopted in measuring the defined benefit obligations and total cost of defined benefit plans for the years ended December 30, 2012 and December 25, 2011 are as follows:

	2012 As at December 30	2011 As at December 25
Defined benefit obligations		
Discount rate	4.50%	5.00%
Expected rate of compensation increase	0.90%	1.90%
Employee benefit costs		
Discount rate	5.00%	5.50%
Expected rate of return on plan assets	6.00%	6.00%
Expected rate of compensation increase	1.90%	3.60%

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

The effective return on plan assets was \$3,899 for the year ended December 30, 2012 (negative effective return of \$1,308 in 2011).

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

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

Based on historical data, the Corporation expects contributions of \$1,325 to be paid for 2013.

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

	2012 As at December 30	2011 As at December 25	2010 As at December 26	2009 As at December 28
Defined benefit obligations	\$ 66,646	\$ 58,320	\$ 51,924	\$ 45,216
Fair value of plan assets	60,255	53,710	51,614	46,669
Plan deficit	\$ (6,391)	\$ (4,610)	\$ (310)	\$ 1,453
Experience gains (losses) :				
Plan assets	\$ 595	\$ (4,507)	\$ (98)	\$ -
Plan obligations	\$ (690)	\$ (359)	\$ 70	\$ -

27. Information on joint ventures

The Corporation's main joint ventures are listed below:

	2012	2011
Northumberland Building Materials Ltd.	49.90%	49.90%
9065-9129 Québec inc.	49.00%	49.00%
9051-5107 Québec inc.	42.10%	42.10%
9171-4220 Québec inc.	20.00%	20.00%

RONA inc.
Notes to Consolidated Financial Statements
as at December 30, 2012 and December 25, 2011
(in thousands of Canadian dollars)

27. Information on joint ventures (continued)

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

	2012	2011
Current assets	\$ 8,171	\$ 9,147
Non-current assets	13,752	13,926
Current liabilities	4,019	5,298
Non-current liabilities	5,948	6,331
Revenues	33,114	33,623
Income before finance costs, amortization, depreciation and impairment of non-financial assets and income tax expense	1,976	1,928
Net income	642	523
Cash flows from operating activities	1,449	1,357
Cash flows from investing activities	(156)	(521)
Cash flows from financing activities	(1,747)	(703)

28. Segment Information

	2012			2011		
	Retail and commercial	Distribution	Total	Retail and commercial	Distribution	Total
Segment revenues	\$ 3,692,229	\$ 2,418,192	\$ 6,110,421	\$ 3,660,827	\$ 2,331,597	\$ 5,992,424
Intersegment revenues and royalties	(17,008)	(1,209,397)	(1,226,405)	(27,815)	(1,160,025)	(1,187,840)
Revenues from external customers	3,675,221	1,208,795	4,884,016	3,633,012	1,171,572	4,804,584
Income before finance costs, amortization, depreciation and impairment of non-financial assets and income tax expense	101,420	60,943	162,363	179,149	61,406	240,555
Finance income			(5,333)			(5,262)
Goodwill impairment			-			(117,000)
Amortization, depreciation and impairment of non-financial assets			(115,735)			(149,736)
Operating profit (loss) ^(a)			41,295			(31,443)
Finance income			5,333			5,262
Finance costs			(20,576)			(34,729)
Income (loss) before income tax expense			\$ 26,052			\$ (60,910)

(a) For the year ended December 30, 2012, these amounts include restructuring costs, impairment of non-financial assets and other charges totalling \$44,268 pre-tax (\$71,343 pre-tax in 2011) (Note 5.4).

29. Income per share

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

	2012	2011
Net income (loss) attributable to owners of RONA inc. ^(a)	\$ 17,297	\$ (78,382)
Dividends on preferred shares, including related income taxes	(9,268)	(7,985)
Net income (loss) attributable to participating shares	8,029	(86,367)
Number of shares (in thousands)		
Weighted average number of shares used to compute basic net income (loss) per share attributable to owners of RONA inc.	122,851	129,984
Effect of dilutive stock options ^(b)	-	-
Weighted average number of shares used to compute diluted net income (loss) per share attributable to owners of RONA inc.	122,851	129,984
Net income (loss) per share attributable to owners of RONA inc.		
Basic	\$ 0.07	\$ (0.66)
Diluted	\$ 0.07	\$ (0.66)

(a) For the year ended December 30, 2012, these amounts include restructuring costs, impairment of non-financial assets and other charges totalling \$44,268 pre-tax (\$71,343 pre-tax in 2011) (Note 5.4). In addition the 2011 net loss attributable to owners of RONA inc. includes a goodwill impairment charge of \$117,000.

(b) As at December 30, 2012, 1,993,210 stock options (2,574,175 options in 2011) were excluded from the calculation of diluted net income (loss) per share attributable to the Corporation's owners since these options have an antidilutive effect.

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

as at December 30, 2012 and December 25, 2011

(in thousands of Canadian dollars)

30. Related party transactions**Transactions with key management personnel**

Key management of the Corporation are the members of the Board of Directors, which includes the President and Chief Executive Officer, and Senior Vice-Presidents. For the years ended December 30, 2012 and December 25, 2011, their compensation included the following:

	2012	2011
Short-term employee benefits	\$ 3,211	\$ 5,592
Post-employment benefits	496	997
Share-based payments	2,771	(780)
Severance	4,519	-
	<u>\$ 10,997</u>	<u>\$ 5,809</u>

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

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

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

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

Transactions with subsidiaries and joint ventures

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

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

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

	2012	2011
Sales of merchandise	\$ 41,592	\$ 35,882
Leases	1,646	1,604
Trade and other receivables	2,087	3,510

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

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

	2012	2011
RONA Revy inc.	100%	100%
4536631 Canada inc.	100%	100%
7594828 Canada inc.	100%	100%
220 Real Estate Limited Partnership	100%	100%
Totem Building Supplies Ltd.	-	100%
4338553 Canada inc.	-	100%
Buildrite Centres inc.	-	100%

In the year ended December 30, 2012, Totem Building Supplies Ltd. was merged with RONA Revy inc. and 4338553 Canada inc. and Buildrite Centres inc. were merged with 4536631 Canada inc.

// MEMBERS OF THE BOARD OF DIRECTORS

ROBERT CHEVRIER

Executive Chairman of the Board of Directors of RONA and Chairman of the Board of Directors of Uni-Select

SUZANNE BLANCHET

President and Chief Executive Officer of Cascades Tissue Group (papermaker) and Corporate Director

RÉAL BRUNET

Corporate Director

LOUISE CAYA

Vice President and Secretary of Thomas Caya (1982) Inc. (affiliated hardware store operating under the RONA L'Express matériaux banner) and Vice President and Controller of Industrie Fabco Inc. (prefabricated kiosks and shelters)

BERNARD DORVAL

Corporate Director

GUY DUFRESNE

Corporate Director

RICHARD FORTIN

Corporate Director

BARRY GILBERTSON

Principal with Barry Gilbertson Consultancy (real estate consulting firm in the United Kingdom) and Corporate Director

JEAN-GUY HÉBERT

President of Maximat Inc. (holding company), Maximat Granby Inc. (holding company), Horizon Devcow Inc. (real estate) and 9060-4976 Québec Inc. (operating a store under the RONA L'entrepôt banner in Granby), Vice President of 9066-7403 Québec Inc. (operating a store under the RONA L'entrepôt banner in St-Hyacinthe) and Rocvale Produits de Béton Inc. (concrete products) and Corporate Director

GEOFF MOLSON

President and Chief Executive Officer of the Club de hockey Canadien Inc., evenko and the Bell Centre and Corporate Director

JAMES PANTELIDIS

Chairman of the Board of Directors of EnerCare Inc. (energy heating) and of Parkland Fuel Corporation (energy downstream) and Corporate Director

ROBERT PARÉ

Corporate lawyer and Partner at Fasken Martineau Dumoulin LLP (law firm) and Corporate Director

JEAN-ROCH VACHON

Chairman of the Board of Directors of Investissements J.R.V. (holding) and Corporate Director

WESLEY VOORHEIS

Partner at Voorheis & Co. LLP (law firm), Managing Director of VC & Co. Incorporated and Corporate Director

// MEMBERS OF THE EXECUTIVE COMMITTEE

DOMINIQUE BOIES

Acting Chief Executive Officer, and Executive Vice President and Chief Financial Officer

MANON BOUCHARD

Executive Vice President, Merchandising

PAUL JOVIAN

Senior Vice President, Supply Chain

CHRISTIAN PROULX

Senior Vice President, People and Culture

LUC RODIER

Executive Vice President, Retail

KARIM SALABI

Executive Vice President, Marketing

TRANSFER AGENT

COMPUTERSHARE TRUST COMPANY OF CANADA

700-1500 University Street, Montreal, Quebec H3A 3S8

BANKERS

Bank of Montreal
Bank of Nova Scotia
Caisse Centrale Desjardins
National Bank of Canada
Royal Bank of Canada

EXTERNAL AUDITORS

RAYMOND CHABOT GRANT THORNTON LLP

Chartered Accountants

FOR INFORMATION

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RONA HEAD OFFICE

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T. 514 599 5100

KEY DATES

FISCAL YEAR-END » December 29, 2013

QUARTERLY EARNINGS RESULTS RELEASE DATES »

First Quarter: May 14, 2013
Second Quarter: August 14, 2013
Third Quarter: November 13, 2013
Fourth Quarter: February 20, 2014

ANNUAL GENERAL MEETING » May 14, 2013

RONA INC.

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“THIS IS A VERY IMPORTANT MOMENT IN THE HISTORY OF RONA. WE ARE FACING SHORT-TERM HEADWIND WITH KEY INDICATORS TRENDING DOWNWARD, BUT THE FUNDAMENTALS OF THE RENOVATION AND CONSTRUCTION INDUSTRY REMAIN ROBUST. I STRONGLY BELIEVE THE 2013-2015 TRANSFORMATIONAL PLAN WILL ALLOW RONA TO ACHIEVE PROFITABLE GROWTH AND BECOME ONE OF THE BEST PERFORMERS IN OUR CORE BUSINESSES.”

DOMINIQUE BOIES

Acting Chief Executive Officer, and
Executive Vice President and Chief Financial Officer



RONA

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