

RONA. Proud to help our athletes soar.

As Canada's #1 home improvement retailer and distributor, we are honoured to support the world's #1 sporting event. From our "Growing With Our Athletes" program to providing materials for official venues and the RONA Vancouver 2010 Fabrication Shop, we are helping to build a proud Olympic and Paralympic legacy.



2007 Annual Report



A culture of service



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Our mission

To offer the best service and the right product at the right price to North American consumers of housing and home improvement products. We do this through a strong network of corporate, franchised and affiliated stores which are leaders in their respective markets with a specific format and banner and an efficient management and distribution support.

Our values

Service

Unity

Respect

Search for the common good

Sense of responsibility

Benoît Brazeau, Boucherville distribution centre employee



A strong network with a unique combination of stores across Canada

77 Big-box stores

These stores offer an unequalled variety of products at the lowest prices. You can find everything under the same roof: hardware, tools, building materials, paint, gardening, decoration and seasonal items. With between 60,000 and 165,000 square feet, these stores feature plenty of elbow room and offer personalized customer service.

RONA

Le Régional, Home & Garden, L'entrepôt

RÉNO DÉPÔT

327 Proximity stores

These are RONA's hardware stores and renovation centres. The hardware stores are small and mid-sized outlets that meet customer needs for hardware, seasonal products and paint. The renovation centres are recognized as specialists in construction materials and paint, offering a wide range of seasonal products and a complete assortment of other renovation and hardware items.

RONA

Le Rénovateur, Home Centre, Le Quincailler, L'express, Hardware

TOTEM

235 Specialized - Consumer stores

Designed to meet the needs of housing professionals including building and renovation contractors, gardeners and expert do-it-yourselfers, these stores offer product selection and services that meet the daily needs of this group.

RONA

L'express matériaux, Building Centre, Cashway, Lansing

BOTANIX **Chester DAWE**

40 Specialized - Commercial and professional

Designed to meet the needs of Commercial and professional customers, these stores or branches offer a wide variety of specialized products in specific categories such as building materials and plumbing.

COUPAL **Certified LUMBER**

NOBLE TRADE **DICK'S**

9 Distribution Centres

Nine distribution centres relying on the latest generation technologies for inventory management and offering top-flight service to all our dealers.

	Indoor area	Outdoor lumberyard
Boucherville, Quebec	926,000 sq. ft.	-
Terrebonne, Quebec	380,000 sq. ft.	-
Saint-Hyacinthe, Quebec	100,000 sq. ft.	125,000 sq. ft.
Halton Hills, Ontario	45,000 sq. ft.	77,000 sq. ft.
Calgary, Alberta	320,000 sq. ft.	-
Calgary, Alberta (TOTEM)	104,000 sq. ft.	375,000 sq. ft.
Hopewell, Alberta	171,000 sq. ft.	-
Edmonton, Alberta	-	185,000 sq. ft.
Surrey, British Columbia	85,000 sq. ft.	378,000 sq. ft.
Total	2,131,000 sq. ft.	1,140,000 sq. ft.

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

Auditors

Raymond Chabot Grant Thornton
LLP
Chartered Accountants

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Management team

Claude Bernier
Executive Vice President
Proximity and Specialized Stores

Michael Brossard
Senior Vice President
Marketing

Richard Brouillette
Vice President, Logistics

Pierre Dandoy
Executive Vice President
Big-Box Stores

Normand Dumont
Executive Vice President
Merchandising

Robert Dutton
President and Chief Executive Officer

Claude Guévin
Executive Vice President and
Chief Financial Officer

Linda Michaud
Senior Vice President
Information and Technology

Gilbert Nolasco
Vice President
Integration

Christian Proulx
Senior Vice President
People and Culture

Michèle Roy
Vice President
Communications and Public Affairs

Michael Storfer
Vice President
Commercial and Professional Market

Key Dates

Fiscal year-end: December 28, 2008

Quarterly earnings results release dates

First Quarter: May 13, 2008
Second Quarter: August 12, 2008
Third Quarter: November 11, 2008
Fourth Quarter: February 19, 2009

Annual General Meeting:

April 23, 2008 at 11:00 a.m. (Eastern Time)
RONA's head office
Academy Room
220 chemin du Tremblay
Boucherville, Quebec J4B 8H7
Tel.: 514 599-5100



More than
\$6.2 billion
in annual retail sales

More than
27,000
employees dedicated
to customer service

679
points of sale
from coast
to coast

9
distribution
centres across
Canada

More than
15 million
square feet of
commercial space

A culture of service

“May I help you?” Just a few simple words. But for decades those few simple words have summed an entire culture at RONA.

A culture that today still follows a rule the independent dealer-owners who founded RONA in 1939 always insisted on: that every customer who enters a RONA store should be a satisfied customer when they leave.



A business model like no other

RONA recognizes that consumers, like dealer-owners, have varying needs and goals. Which is why RONA has developed a unique business model designed to satisfy different types of customers and different types of dealer-owners as well.

This unique model comprises four store formats that address specific markets or consumer sectors: big-box, proximity, specialized – consumer and specialized, commercial and professional. And three ownership formulas: corporate stores, franchises or affiliates. So even dealer-owners who prefer to remain independent can still enjoy all the advantages, energy and solid foundation that make RONA what it is today.

Year 2007

February 7 – RONA steps up presence in commercial and professional market with acquisition of major chain of specialized stores in Ontario: Noble Trade

February 16 – RONA signs 9-year collective agreement with employees at Boucherville distribution centre

March 14 – RONA to recruit close to 3,500 positions across Canada

April 2 – RONA closes acquisition of Noble Trade

May 8 – Jean Gaulin succeeds André H. Gagnon as RONA Chairman of the Board

August 30 – RONA marks 10-year anniversary of its pioneer paint recovery program

November 9 – RONA unveils new eco-responsible initiatives

November 19 – RONA and VANOC open Fabrication Shop and launch community-based youth training program

November 30 – Creation of new division dedicated to commercial and professional market

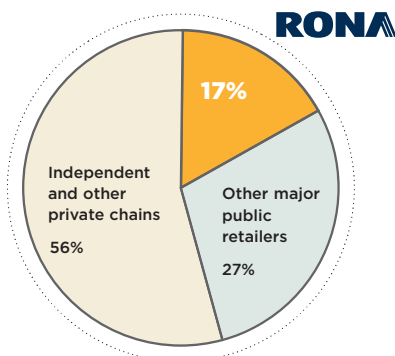
December 3 – RONA closes acquisition of building supply and hardware specialist Dick's Lumber

December 12 – Home improvement projects made easy with RONA Project Guides

December 17 – RONA acquires Centre de Rénovation André Lessard in Quebec's Beauce region

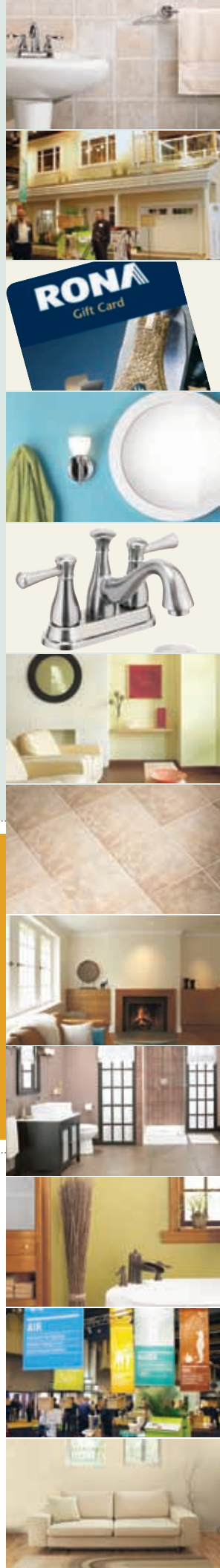
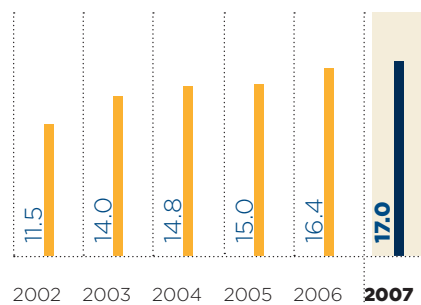
Highlights of the year

\$36 Billion canadian Hardware-renovation Market
(market share)



Source: Industry sources and management estimates

RONA's market share in Canada
(%)



Financial highlights

Years ended December 30, 2007, December 31, 2006 and December 25, 2005

(in thousands of dollars, except data relating to earnings per share, diluted earnings per share, number of shares and ratios)

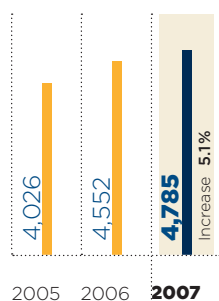
	2007	2006*	2005
Results of operations			
Sales	4,785,106	4,551,936	4,026,424
Percentage increase	5.1%	13.1%	11.0%
Operating income (EBITDA)	400,207	383,882	333,604
Operating income margin (EBITDA/Sales)	8.4%	8.4%	8.3%
Net earnings	185,089	190,584	175,210
Diluted earnings per share**	\$1.59	\$1.64	\$1.51
Cash flows from operating activities	276,809	283,437	158,712
Investments			
Business acquisitions	228,502	168,872	123,335
Fixed assets	233,662	232,173	143,969
Capital structure			
Total assets	2,482,446	2,108,382	1,667,616
Shareholders' equity	1,325,206	1,134,366	936,184
Long-term debt	602,537	455,310	230,300
Net indebtedness	653,484	447,556	263,245
Net indebtedness/Total capitalization	33.0%	28.3%	21.9%
Net indebtedness/Operating income	1.6x	1.2x	0.8x
Supplemental information			
Shares outstanding	115,412,766	114,935,569	114,412,744
Stock price-closing	\$17.18	\$21.00	\$21.31
Market capitalization	1,982,791	2,413,647	2,438,136
Enterprise value	2,636,275	2,861,203	2,701,381
Enterprise value / Operating income ratio	6.6x	7.5x	8.1x
Price/Earnings Ratio	10.8x	12.8x	14.1x
Credit Rating (as of March 5, 2008):			
DBRS: BBB (stable outlook)			
Standard & Poor's: BBB- (negative outlook)			

* Fiscal 2006 had 53 weeks versus 52 weeks in 2007 and 2005.

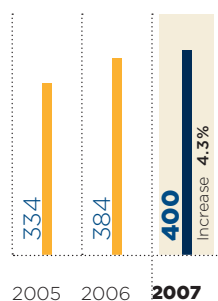
** Figures per share reflect a two-for-one split in March 2005.

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

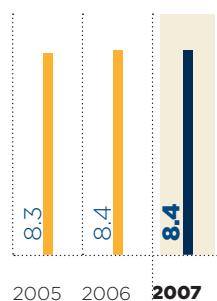
Sales (in millions of dollars)



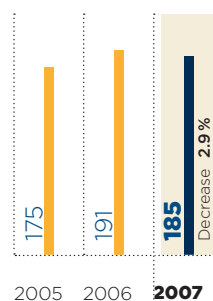
Operating income (EBITDA) (in millions of dollars)



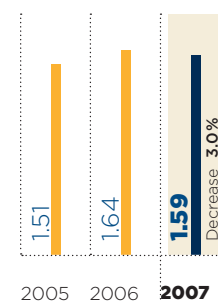
Operating margin (EBITDA/sales) (%)



Net earnings (in millions of dollars)



Diluted earnings per share (in dollars)





Message from the President

Robert Dutton
President and CEO

From where we stand at the end of 2007, we have a bigger and denser network that is more finely attuned to the expectations of Canadian consumers than ever before. It offers a variety of retail formulas ready and able to serve small and mid-sized communities as well as the country's largest urban centres.

The right plan. The right tools.

Our network includes over 27,000 employees motivated to offer our customers the best service in the industry – what we proudly call the RONA service culture.

In 2007, we strengthened our network by making a number of promising acquisitions, building corporate stores and pursuing our recruitment campaign.

Our acquisitions open up strong growth potential for us in the commercial and professional segment of the market – a segment evaluated at \$70 billion in annual sales in Canada. The acquisitions of Noble Trade and Dick's Lumber created a solid base for development, with annualized sales of this segment already close to the \$500 million mark. In fact, we've even created a division devoted exclusively to the commercial and professional segment.

The recruitment of affiliate dealer-owners added 27 points of sale and 81 million dollars in retail sales to our network over the last twelve months.

In terms of internal growth, we opened ten corporate and franchise stores, representing some 840,000 square feet of retail sales space.

1. Emerging issues

In short, as we begin our new planning cycle, we have a high-performance working tool capable of rising to meet the challenges of any issues that may come up.

For example, 2007 did not meet the standards of the last few years in terms of same-store sales growth, which dropped by 0.8%, excluding the impact of the fluctuation in forest products and the additional week of 2006, largely explaining the delay in achieving our 7-07 objective to reach \$7 billion of annualized retail sales by the end of 2007.

This slowdown is disconcerting at first glance, but while it clocked in below our expectations, it is still higher than that of our main competitors. This pressure in our industry is happening while the overall Canadian economy is actually doing quite well, with significant regional differences. But no matter what the economic conditions, our challenge is to get more people into our stores more often and continue to increase customer loyalty.

A few years ago we identified “cocooning” as an important underlying factor in the accelerated growth of our industry: beyond the objective maintenance and renovation needs, beyond the demand arising from socio-demographic changes in the market, a portion of the demand is associated with leisure and therefore in direct competition with other types of discretionary spending, which gained strength in 2007.

2. Strength in the fundamentals of the industry unchanged but new challenges arise

These emerging issues do not change the fundamental dynamics of our market. That market is still supported by solid structural factors: the aging of the housing stock, the changing housing needs of baby boomers, and of course, the fact that Canadians take real pleasure in decorating, renovating and gardening. But over this still-promising backdrop we have to face slower growth in discretionary demand for renovation products.

Revitalize same-store sales

Our first priority is to revitalize sales. This can be achieved first and foremost by the quality of our in-store service. To this end, we systematically measure customer satisfaction, and we regularly achieve a score that is higher than the average for our industry and is increasing in most of our markets.

This improvement depends on all the employees in our network. And that means that recruitment, retention, training and employee mobility are key to our quality service approach. For this reason, we have decided to increase and enhance our investment in talent management. From our recruitment process to our training programs and our employee remuneration policies, our entire talent management approach is geared to producing service that is unparalleled in the industry.

Building customer loyalty is an essential component in our sales revitalization strategy. We already have a portfolio of tools that we plan to promote even more vigorously than in the past: the AirMiles™ program – the biggest customer loyalty program in Canada, RONA gift cards, the RONA credit card, and RONA private brand products are customer loyalty tools that have proven themselves effective and that still have tremendous penetration potential.

Stores and store layouts are the retailers’ “products” to create the customer experience. That’s why we continually invest in perfecting our layouts, updating our store concepts and upgrading existing stores. Our innovations in regional and proximity store design have been very successful, and we’re working on even more new concepts.

These efforts will benefit from increased and more targeted advertising support that will spread our reputation and tell Canadian consumers about our distinct advantages.

Develop the network

The strategies described above will revitalize our existing network. But the Canadian market still offers wide-ranging development potential. That’s why we plan to open seven new stores and tackle a number of major renovation projects, especially for the Réno-Dépôt banner. At the same time, our independent dealer-owners will be undertaking many development projects of their own: relocations, renovations and expansions.

Stay on the leading edge

A good retailer also has to be a good distributor. Advances in information technology and logistics are continually extending the limits of operational efficiency. In 2008, we will spend no less than \$80 million developing our physical infrastructures and information systems. These investments will translate into measurable improvements in store service rates and inventory management.

3. Becoming the sustainable development leader in our industry

Sustainable development has been a matter of concern to RONA for many years. In 2007 we celebrated the 10th anniversary of the first paint recovery and recycling program in Canada, one we helped established. But now sustainable development will be front and centre in our growth process and an inherent part of everything we do. (Please see pages 26 to 31.)

Why embrace this integrated approach right now?

Well, first of all, the responsibility of all citizens – institutional and individual – has become undeniable in the face of the environmental consequences of our lifestyle.

Second, we hope that our actions will set an example for other citizens, especially our customers and suppliers, and demonstrate that the responsibility of each citizen is directly proportional to the size of their environmental footprint.

Third, our customers, like most consumers, are telling us that sustainable development is important to them. So it's natural for us to reflect these concerns.

4. The right plan, the right tools

The development of a business has a lot in common with any renovation or construction project: you need the right plan and the right tools. From the very first day, RONA's founders decided that the long-term interests of our stakeholders would dictate the company's decisions: dealer-owners, customers, employees and shareholders. With this view in mind, we resolved to adopt a more flexible and resilient business model more than a decade ago, one formulated on the co-existence of different store formats and ownership formulas.

To date, we have only had reasons to celebrate these two decisions. We are still taking action for the long-term interests of RONA and our stakeholders and our business model remains a clear, strategic advantage. Our development strategy will therefore remain basically the same as the one we implemented at the start of the new century – to pursue our four vectors of growth: internal growth, expansion of our store network, recruitment of affiliates and acquisitions. Adjustments to this strategy will be the subject of our 2008-2011 Plan.

With its focus on the sustainable success of RONA, the 2008-2011 Plan will be the right plan and, as in the past, RONA will have the right tools to carry it out, from the best store network in Canada to the best employees, all motivated by RONA's service culture.

On that note, I want to express my personal thanks – and that of our board of directors and our entire management team – for the skills and dedication of the employees in the RONA network. Day after day, they are “manufacturing” our product: customer service. And thanks to them, that product is getting better every year.

I also want to thank the members of the board of directors. Their support and advice help us challenge ourselves to do better and meet the very highest standards of governance, which has long been part of RONA's fundamental values.



Robert Dutton

President and Chief Executive Officer

RONA's growth strategies continued to build a stronger position for the company in the Canadian market in 2007, overcoming economic uncertainties that modified customer spending in some parts of the country. In the last twelve months, RONA increased the size of its store network by about 8%.

The company was able to achieve this continuing pattern of enlargement through a unique business model built on four vectors of growth.

- > First is **Comparable Store Sales**, the growth from the existing store network, including renovated, expanded or relocated stores. This is most vulnerable to fluctuations in the economy, housing starts and home resale, as well as the leisure spending preferences of consumers.
- > Second is **New Store Construction**. RONA is committed to expanding its network across all of Canada and is able to do so through a unique and flexible strategy. It is alone in offering multiple formats and layouts according to the needs of each location.
- > Third is **Recruitment of independent dealers** to the RONA banner. This vector often counterbalances the first, as challenging times induce more independents to seek growth with a big organization. Of the company's 679 stores, 421 are owned by independents.
- > Fourth is **Acquisitions**, which has delivered strong growth since 2000. In the past seven years, the company has successfully integrated more than 220 stores with 14,000 employees, nine million square feet and \$2.6 billion in sales.

RONA is also differentiated in the way in which it manages its day-to-day operations.

"We always exercise very precise control over expenditures and this was one of our primary concerns in the last 12 months. As a result, we're usually in a better position to continue to generate strong cash flow when a slowdown does come," says Chief Financial Officer, Claude Guévin.

Each of the four ways to grow is presented in more detail in the following pages.

FOUR WAYS TO GROW

UNIQUE STRATEGY. A growth strategy unlike that of any of its competitors continues to benefit RONA as consumer confidence fluctuates.

Management Committee

Back row: **Pierre Dandoy**, Executive Vice President, Big-Box Stores **Michael Brossard**, Senior Vice President, Marketing **Gilbert Nolasco**, Vice President, Integration **Claude Guévin**, Executive Vice President and Chief Financial Officer **Richard Brouillette**, Vice President, Logistics **Claude Bernier**, Executive Vice President, Proximity and Specialized Stores, **Christian Proulx**, Senior Vice President, People and Culture

Front row: **Michèle Roy**, Vice President, Communications and Public Affairs **Robert Dutton**, President and Chief Executive Officer **Linda Michaud**, Senior Vice President, Information and Technology **Normand Dumont**, Executive Vice President, Merchandising

Missing on photo: **Michael Storfer**, Vice President, Commercial and professional market, and President of Noble Trade.





Comparable Store Sales

1 - Liette Vigneault, Director, Training and Development; and Christian Proulx, Senior Vice President, People and Culture; with Chantal Lejour, Assistant store manager from RONA Pierrefonds. **2** - Pierre Dandurand from RONA Brossard serving a client at the store's Contractor and commercial sales service desk. **3** - Project Guide Joanne Dagenais from RONA Brossard with customers.

A shift in consumer spending priorities was reflected in reduced comparable stores during 2007.

Historically a portion of consumer expenditures on home improvement has been part of discretionary spending and thus, competing against other items in the family budget, such as leisure, travel and vacation. Spurred on by a strong Canadian dollar, international travel appeared to be more often in the plans of consumers.

As well, the strength of the Canadian dollar created a more challenging environment for Canadian manufacturers. This trend was noticeable in eastern Canada,

where most manufacturing jobs are concentrated and where the bulk of RONA's network is located. Also, in 2007, housing starts of single units were weaker than the previous years. These elements were mainly responsible for the slight decrease in comparable sales over the previous year.

Compounding these pressures was a third straight year of deflation in lumber prices, which reached their lowest levels since 1992. At constant average forest product prices, RONA's comparable sales decreased by only 0.8%, after adjusting for the extra week in 2006.

"It's been a challenging year," comments Claude Bernier, Executive Vice President of Proximity and Specialized Stores. "We hope to see some recovery in lumber this year as rationalization works its way through the industry."

Significant efforts were made to stimulate sales and traffic with promotional activities throughout the network. These efforts resulted in an increase in the average shopping basket but, with consumer confidence down, customers appeared to be deferring renovation projects, resulting in fewer transactions.

Despite short term pressures, the company believes industry fundamentals remain strong. Over 85% of Canadian homes are over 10 years old and 65% are over 25 years old. Baby Boomers today represent 30% of the population and are on the verge of retiring with more money and better health than any previous generation. RONA's own surveys indicate that 53% of Canadians enjoy redecorating their homes and 56% enjoy gardening, up from 47% three years ago.

The resulting seven decades of customer orientation is seen as an important advantage in a new era of heightened competition for RONA. The world's second largest retail chain in the home renovation business arrived in Canada in December with three new stores and opened four more in January, all in Ontario.

"Customer loyalty is a huge asset because it takes so long to build," says Christian Proulx, Senior Vice President, People and Culture. "And, while many companies talk values and customer focus, RONA is differentiated by the degree to which these are integrated and promoted."

"Respect for people and helpfulness are demonstrated on a daily basis."

Service is everyone's business

Some 21,000 of RONA's more than 27,000 employees are in direct contact with the customer. The Company has increased its investment in training and development steadily over the last few years – 10% in 2006 and another 10% in 2007.

TAKING THE OFFENSIVE. The company responds to a slowdown in sales growth with traffic builders, intensified customer service and a sharpened focus on efficiency.



To meet these ongoing needs, RONA remained focused on four key areas in building business across the network: customer service, marketing, merchandising and logistics, and innovation in meeting the needs of its customers.

Getting Close to the Customer

RONA long ago established superb customer service as the #1 driver in its business growth. Dating back to its roots as a co-op of small hardware stores, the company culture is built around a desire to satisfy each customer as if they were neighbours.

The IC4 interactive program, now in its fourth year, has trained over 20,000 of in-store employees in knowledge and use of products and services by means of interactive work stations. In 2007, IC4 was expanded to include a new training curriculum for store managers.

Over 20,000 in-store employees have also been trained in the AGP program – Acknowledge, Guide, Provide – which defines desired customer-oriented behaviour of employees. RONA's culture makes service the responsibility of everyone and AGP has been expanded in 2007 to include workers in Distribution Centres and administrative offices.



1 - Sylvie Turcotte, National Director, Customer relationship management; Bernard Haeck, RONA Pierrefonds store manager; and Michael Brossard, Senior Vice President, Marketing. **2** - Nancy Roussy, Merchandiser; Normand Dumont, Executive Vice President, Merchandising; Luc Nantel, Vice President, Hardware Merchandising; Manon Bouchard, Director, Merchandising; with RONA Pierrefonds employee Paul Joyal. **3** - RONA is the leading partner of the Canadian Football League.



Attractive and convenient store layouts

An important component of customer satisfaction is store layout. RONA was a leader in bringing the home improvement shopping environment upscale with stores that were well lit, attractively decorated, spacious and with products grouped for display as they would be used – for example, putting vanities and plumbing fixtures together in a bathroom boutique.

Each year, RONA invests to refresh its network of stores and apply its latest concepts to the renovated stores.

In 2007, a major upgrade of the Réno-Dépôt banner continued following the opening of a new-concept store in Rimouski in 2006. The program will result in upgrading all stores of this banner, the first of which to be completed in Gatineau, Quebec, early in 2008. Also in 2008, a second new-concept store will be opened in Candiac, Quebec.

The new Réno-Dépôt store concept extends to all the main strategic contact points with shoppers: store layout, signage, sales and service.

Shopping will be faster and more convenient than ever thanks to a greater number of open areas, more interactive displays, redesigned lighting and a new, clearer and more detailed system of in-store signs. These signs make it easier for customers to find complementary products that add value to their main purchases.

Other steps taken to increase traffic to the R no-D p t stores in 2007 were:

- > The introduction of the Air Miles™ card, the largest loyalty program in Canada used by 70% of households;
- > The addition of the paint recovery program at all 15 stores, a program pioneered by RONA 10 years ago and a hallmark of its sustainable development initiative.

Brand Marketing: compelling reasons for visiting your RONA store

Brand marketing at RONA fuels each of our growth vectors. It positions the brand based upon the products and services we offer as well as the shopping experience.

We focus on communicating with customers on a regular basis. Whether it's our flyer program which is delivered to 7.7 million targeted households or our website which receives a million visits a month or our promotional activity – it's about enhancing "touch points" with our customers. Our marketing also leverages the most appreciated and largest customer reward program in Canada, the Air Miles™ reward program to attract and reward customers for their patronage. We create shopping solutions through our RONA credit card financing program and gift card.

The year 2008 will be marked by the largest sporting event in the world, the Beijing 2008 Olympic and Paralympic Summer Games. RONA is a National Partner of the Canadian Olympic and Paralympic teams which will be competing in Beijing. It also marks the two-year countdown to Canada's showcase event, the Vancouver 2010 Winter Games, for which RONA is the official home improvement supplier and National Partner.

"We are very proud of our sponsorship of the Vancouver 2010 Olympic and Paralympic Winter Games here in Canada", says Michael Brossard, Senior Vice President, Marketing. "It's a perfect fit and we will be very front and centre on television this year with the Summer Games taking place in Beijing, China."

RONA is the leading partner of the Canadian Football League and is highly involved with the RONA MS Bike Tour and Canadian Red Cross. Our efforts have resulted

in dramatic exposure coast to coast. In 2007, national awareness registered at 78% with a significant increase in Ontario jumping from 59% to 70% compared to the previous year. Brand awareness out West has reached 78% and Quebec is at 88%.

Converting this awareness to in-store traffic is achieved through precisely targeted customer relations management (CRM) initiatives. During 2007:

- > Membership in the RONA credit card increased 10%.
- > Value of the RONA Gift Card increased 11%.
- > Sales with a financing solution grew 52%.
- > The number of customers collecting Air Miles™ points grew 11% to reach 3.3 million, 64% of the customer base.
- > Sales to Air Miles™ cardholders increased 22% over 2006. User profiles enable RONA to target and reward these customers with specific offers and specials.

The company continues to attract a fast-growing online audience. Monthly visitors to www.rona.ca exceeded one million four times during 2007. The web site contains more than 600 step-by-step projects and offers 12,000 products in an online catalogue.

We will invest in continuing to build and improve our web capabilities in 2008. There is a strong correlation now between site visitors and sales: people go online for knowledge and then go in-store to buy the materials and tools. The next step is to focus on improving the online purchase capability.

The right item, at the right price, at the right time

RONA's third formula for building revenues from year-to-year lies in product selection, distribution and availability. During 2007, the company continued its emphasis on improving product supply.

The process is led by Merchandising and starts with identifying products and services customers want. The company's Spring Trade Show, held each November to showcase products for the following spring, featured 1,400 new national brand products from 225 suppliers last fall.

The strength of the RONA brand products

The company maintained a strong focus on its popular and fast-growing line of RONA brand products. Increased merchandising and marketing activity and employee

product training contributed to growth of 18% over 2006 and the RONA brand products exceeded an objective of 15% of category sales.

There are now 2,093 RONA brand products – 247 added in total in 2007 – found in all hardware categories. RONA brand products achieve higher margins and match or exceed the quality of national brands.

Eco-responsible products

Also new in 2007 is a strong commitment to sustainable development, which the company feels will respond to a demand from a growing segment of the market. At the Spring Trade Show, an Eco-responsible Zone presented more than 400 products in 40 categories identified by RONA as being “best choices for consumers, based on their features that help respect the environment.”

RONA is partnering with the International Chair in Life Cycle Assessment of the École Polytechnique in Montreal to establish criteria governing manufacture, usage and disposal of products. In the spring 2008, the company

will launch an all-new line in its private brand, called RONA Eco. Every product released under the new brand will have to meet criteria developed with the Life Cycle Assessment Chair.

“The launch of our RONA Eco brand is a first in our industry,” says Normand Dumont, Executive Vice President, Merchandising. “Never before has a retailer associated its name and reputation with an Eco-responsible product. At RONA we believe it’s important to do something concrete to encourage people to act responsibly.” (See Page 30 - Sustainable Development).

RONA Eco will join a line of private-label products that have already captured the interest of customers.

Focus on Supply Chain

The complex issue of Supply Chain Optimization (SCO) was a top priority again in 2007. SCO involves a rigorous analysis of the effectiveness of selecting, purchasing, shipping and stocking the 100,000 products in RONA’s inventory.

Over
2,000
RONA brand
products

1 - Lisa Lemay, Director, RONA Brand and RONA by Design; and **Suzanne Maggi**, Director, Merchandising; in the RONA Brossard paint boutique.



Review of Operations

“We succeeded in realizing important savings in inventory management in the big-boxes,” says Dumont. “In 2008, we will keep focusing on achieving additional inventory reduction.”

Measures will include improving inventory quality, revising the classification system and applying new purchasing controls linked to store budget and forecast.

A key development during 2007 was the creation of dedicated teams which will be accountable for two important steps in the supply chain management.

> A Demand Management Group was established with dedicated planning and analytical resources. The group’s primary goal is to reduce inventory levels, while improving customer service levels and in-store availability. The team will play a critical role in reducing inventories, improving service levels and optimizing purchase planning, allowing for better cash flow.

> A Supply Chain Department will provide a link between merchandising and distribution. This will include co-ordinating the efforts of Merchandisers according to the needs of consumers and the receiving capacity of Distribution Centres and stores.

The first full year’s operation of a new flow-through Distribution Centre (DC) in Terrebonne, Quebec resulted in improved efficiencies in transportation. With the volume of goods handled in flow-through, also known as cross-dock, there is a significant gain in direct labour productivity over conventional warehousing methods. The flow-through system eliminates storing and holding inventory in the DC by aggregating and redirecting supplier deliveries the same day.

In the West, strong growth since 2004 has increased RONA’s store base from 61 to 114. The company is looking at options for increasing the distribution capacity in Calgary.

2 - Richard Brouillette, Vice President, Logistics (center); with **Claude Vallée**, Coordinator, Receiving; **Josée Joly**, Replenisher; **Josée Gosselin**, Picker; and **Pierre Forget**, Coordinator, Production; in the Boucherville Distribution Centre.



Improving efficiency

Efficiency is heavily dependent on systems. Information Technology completed in 2007 the implementation of the new flow-through distribution centre in Terrebonne, Quebec. During the course of the year, the IT team adjusted the control and reporting processes required by recent regulations. The department also finalized planning for an integrated new financial system which will simplify reporting and enable sophisticated analysis.

Implementation of this financial system will be a highlight of the total 2008 IT investment of \$40 million aimed at improved efficiency and management control. Initiatives also include the selection of a new Human Resources system, which will give managers real-time access to information and reports. At the retail level, a more versatile point of service system at the cash register will be selected in order to allow greater flexibility for promotions. Finally, a complete e-commerce strategy will be defined beginning with the website upgrade.

"We have a number of major projects underway," says Linda Michaud, Senior Vice President, Information and Technology. "These initiatives support management and our employees and are always geared towards ultimately improving our service to customers and our efficiency".

A new dimension to service

One of RONA's strongest suits has been innovation and the ability to bring new dimensions to the concept of customer service. Recognizing the importance of design and lifestyle in renovation projects, RONA's current initiative is to remove barriers by making projects easy to create and complete.

RONA by Design was launched in 2006 as a joint marketing and merchandising initiative that anticipates the needs of Canadian do-it-yourselfers. It is patterned after the "*prêt-à-porter*" fashion world, (the French version is *Prêts-à-rénover*). It offers three style families – Global Village, Oasis and Spirit – developed by professional interior designers to reflect different tastes and lifestyles of today. Customers can envisage the impact of each style and are prompted in the choice and combination of accessories.

RONA by Design was available in nine project categories by the end of 2007 and contributed to 34% sales growth in finished plumbing products. The categories are bathrooms, exterior facades, themes in paint and colours, patios, decks, landscaping, kitchens, organizing and storage solutions and Christmas decorations.

Demographic research suggests that retiring Baby Boomers, after spending liberally on home renovation do-it-yourself projects, reach a point where they want the work done for them. RONA responded in 2005 by introducing professional installation services for flooring, windows and doors, etc. Installation services are now offered in 11 categories of products.

Seeing the success of professional services to complete a project – sales of installation services strongly increased in 2007 – RONA last year offered customers expert assistance at the beginning of the project.

To provide customers with a more complete solution to their renovation projects, a companion program was created in 2007: the Project Guide. Customers are offered a guide for their project and an experienced employee is assigned to advise and provide assistance for the duration of the project.

The guides are specially-trained, knowledgeable employees who can assist customers through home improvement projects. They advise on products and help co-ordinate the necessary work, including installation services for customers who require them.

"We see this as a big differentiator for RONA," says Pierre Dandoy, Executive Vice President, Big-Box stores. "Having a personal assistance service to back up innovative solutions adapted to a customer's precise needs is irresistible.

"It combines our great strengths of knowledgeable, helpful employees and great product diversity."





New Store Construction

1 - Opening day of the new RONA Collingwood, Ontario, on September 26, 2007. **2** - Starting from the right, **Evan Stewart**, Store Manager, RONA Waterdown, Ontario; **Pierre Dandoy**, Executive Vice President, Big-Box stores; **Michael Rushton**, Vice President, Big-Box stores, Ontario; with store employees. **3** - **Steve Martin**, Store Manager, RONA Collingwood, Ontario; and **Doug Adlam**, Vice President, Retail operations, Proximity stores, Ontario. **4** - From the Finance department, **Martin Beauregard**, Director, Margin analysis; **Monique Lauzon**, Director, Retail operations control, Big-Box stores; **Claude Guévin**, Executive Vice President and Chief Financial Officer; **Marie-Claude Lalonde**, Vice President and Corporate controller; and **Christian Roy**, Director, Retail operations control, Proximity stores.

RONA continued to expand its network in 2007 through new construction, opening 10 new stores in Alberta, Ontario, Quebec and New Brunswick.

It was a major year for big-box stores with seven openings, following five new stores in 2006. Three new proximity stores were opened, the same as the previous year.

The new stores represent an investment of \$186 million and added a total of almost 840,000 square feet to the consumer sales network. The openings also created over 1,000 new local jobs in the communities where they are located.

The RONA network of consumer and specialized stores now consists of 679 stores and more than 15 million square feet, excluding lumber yards.

Importance of being involved

RONA views a new store as more than a retail destination. It takes pride in being a part of the communities where it operates and becomes an involved and concerned participant.

Each big-box store generates 150-175 jobs which are sourced locally.

At the time of the opening, RONA also has a custom of contributing donations through the RONA Foundation of up to \$5,000 to local organizations or projects that fight against dropping out of school and illiteracy. The Foundation also continues to support community-based organizations and activities on an ongoing basis.

It also does this on a national scale. A current sponsorship is "Growing with Our Athletes", a program that is supporting 100 high performance Canadian athletes. Each RONA store is associated with an athlete.

Green buildings

Concern for the environment is also part of RONA's presence in a new community. The company is studying the LEED system (Leadership in Energy and Environmental Design) of rating new buildings with a view to applying its principles to the construction of new stores. Many of these requirements are already integrated in our construction standards.

The LEED green building rating system was developed to assess the environmental sustainability of building designs. Points are earned for attributes considered environmentally beneficial, such as water and energy efficiency and the selection of materials.

Ontario focus

In 2007, the bulk of the construction investment was directed to Ontario, where double digit growth in some communities is creating excellent opportunities. The added presence in Ontario also strengthens RONA's position against new competitors in that market.

Four new big-box stores were opened in Scarborough, Whitby, Waterdown (adjacent to Hamilton) and London. Each represents an investment of \$20 million and an additional 100,000 square feet of retail space. The Scarborough store includes a spacious greenhouse, a garden centre of some 34,000 square feet and an indoor, drive-through lumber yard for added convenience.

MORE THAN A STORE:
RONA's new construction strategy has several dimensions. It doesn't so much build a new store as it adopts a new community.



GROWING WITH OUR ATHLETES
PROGRAM

RONA



Review of Operations

New proximity stores were opened in Leamington in south-west Ontario and Collingwood in the north. Both are the new-concept, 52,000-square-foot stores pioneered out west and now being implemented in Ontario.

This format was created to serve both the do-it-yourself customer and the contractor and provide them with a very good product assortment and personalized service. This store format offers all under one roof the best of building materials with finishing products such as paint, lighting, kitchen and bathroom cabinetry, doors and windows. Specialty services include kitchen and bath design, flooring, computer paint chip matching, door and window takeoffs, as well as lumber cutting and delivery.

The smaller store requires fewer employees who are able to offer a highly personalized service to complement a range of products and services usually found in large cities and big-box stores.

Ontario now has a total of 21 big-box stores and 24 proximity stores in a total network of 182 stores, the largest concentration outside Quebec.

Other 2007 store openings were in Calgary, and the Greater Montreal suburbs of Pierrefonds and Brossard, all three big-boxes. A third proximity store was opened in Edmundston, N.B., bringing the total number of stores in the Atlantic region to 23.

Seven more stores this year

Seven new stores are scheduled to open in 2008. This is down slightly as the economic pressure continues in the east and parts of the west show signs of slowing down. However, RONA remains committed to a strategy of growth by building new stores across the country.

"We have 50 sites approved by the Board and can be quite flexible in our schedule for construction," says Claude Guévin, Executive Vice President and Chief Financial Officer. "We intend to continue to have the best choice of locations, products and services for our customers right across the country."

"Municipal planners are working several years out in setting up new communities and the infrastructure that supports them," he says. "Given our leadership position

1 - Christian Castonguay, Department Manager, Store conversion, opening and deployment; **Ingrid Lalonde**, Chief cashier at RONA Pierrefonds; **Daniel Ducharme**, Senior IT Director, Retail development, IT; **Linda Michaud**, Senior Vice President, Information and Technology. **2 -** Board cutting ceremony to celebrate the official opening of the new RONA Whitby store on October 24, 2007. **3 -** Opening day at RONA Leamington, Ontario on July 25, 2007. **4 -** From the Real Estate and Construction department, **Marie-Josée Tremblay**, Vice President with **Bernard Mercier** and **Richard Hudon**, Directors of construction.



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Finding Good People

The opening of each new store brings with it the challenge of hiring the right people, training them and then retaining them.

“RONA has a very strong culture and it is important to maintain it as the company grows and expands across Canada,” says Christian Proulx, Senior Vice President, People and Culture. “But it is one of the defining issues of the company. It sets the expectations of customers and suppliers.”

Each store hires locally but RONA has a central structure to minimise redundancy in the process. It also tries to make it easy for people looking for a job.

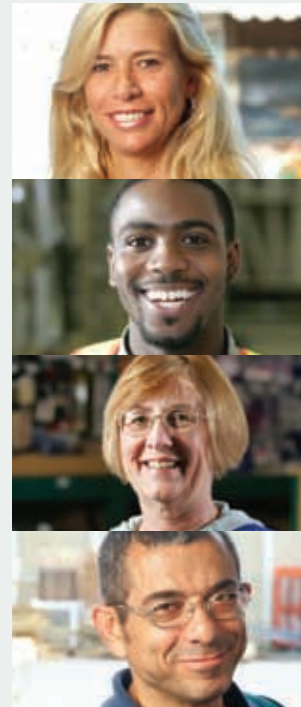
“We have completed a successful pilot program of online job kiosks inside the stores and will roll out that program in big-box stores across Canada in 2008,” says Proulx.

Online recruiting has proven popular with www.rona.ca attracting 30,000 applications over 12 months, leading to thousands of hires.

With most of these hires being seasonal, RONA's core challenge is to communicate rapidly the company's culture and values as well as the product and service knowledge relevant to the job.

This is accomplished through a two-part training curriculum. One program teaches product and service knowledge through interactive modules and the second teaches and rewards high standards of customer service.

With the new store openings and acquisitions in 2007, RONA's workforce now exceeds 27,000 people.



in Canada, we are more and more attractive to these planners and their developers. Building on those strong relationships will allow us to continue to have access to the best new locations.”

Flexible format

The flexibility of RONA's business model is demonstrated by the Edmundston, N.B. opening. The new store is 35,000 square feet, smaller than the 52,000 square feet optimum concept for this family of stores, but adjusted for maximum efficiency in that location.

The bright, shopper-friendly interior still offers some 20,000 products, only 3,000 fewer than the national model, and the floor layout includes boutiques for paint, lighting and doors and windows.

The seven stores scheduled to open in 2008 consist of five proximity stores. Three are scheduled in Ontario, one in Quebec and one out West.

One of the two new big-box openings will be in Halifax, a new market for RONA. The other will be a new Réno-Dépôt store in Candiac, Quebec, the second new premium store and a highlight of the rejuvenation of this banner which is currently underway.

RONA is the only company to offer multiple formats and store layouts, which give it the flexibility to operate effectively in a wide variety of communities. As a result, 85% of Canadians coast to coast live within a half-hour drive of a RONA store.



Recruitment

1 - Affiliate dealer-owner, **Jeff Harron**, owner of stores in New Dundee and Moorefield, Ontario. **2** - Affiliate dealer-owners, **Bill** and **Christine Corbett**, from Parry Sound, Ontario; with **John Longo**, Development Director, Affiliated Proximity stores, Ontario and Atlantic; and **Claude Bernier**, Executive Vice President, Proximity and Specialized stores.

RONA's recruitment of independent dealer-owners continued to bear fruit in the past year. In the last 12 months, 27 dealers were recruited representing \$81 million in annual retail sales. With an important increase in the number of targeted dealers visited in the past few months and the addition of new members to the recruitment and support teams, the Company expects to realize an increase in annual retail sales coming from recruitment in the coming year.

Since 2003, RONA has benefitted from an aggressive recruitment strategy across Canada resulting in the addition of more than 130 dealers for over a million square feet and annual retail sales of \$628 million. And Canadian consumers, as well as contractors and small companies served by these stores, have enjoyed access to the deepest product inventory and possibly the best pricing in the industry.

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“There are many dealers joining up with us every year,” says Claude Bernier, Executive Vice President, Proximity and Specialized Stores. “Each fall, we get more dealers checking us out at our trade show and then, a couple of months later, making the switch to our banner.

“It’s a win-win situation. The dealers are in a much stronger position and, as a part of RONA, they are supported by an experienced team who can help them to rapidly grow their business. For RONA, the recruitment of dealers represents a profitable way to grow the network without capital outlay and at limited incremental costs.”

The dealer recruitment program taps into a ready source of potential affiliates in a highly fractured Canadian market. Three companies represent 44% of the market and the other 56% is made up of thousands of independent dealers. As competition intensifies and becomes global, these dealers face an increasingly uphill battle to grow and profit.

The emergence of Asia as the “factory for the world” makes imports a matter of competitive survival, accompanied by more complexity and risk in the process. Offshore importing can also run counter to another growing consumer concern, the need for products and manufacturing processes meeting ever higher social and environmental standards.

Difficulties of succession

When it comes time to realize the equity in their business, independents are finding the waters rough. It is estimated that three out of four dealers have no formal succession plan and the Business Development Bank of Canada places the number of family-owned businesses successfully passed on at a lowly 30%.

Against this challenging backdrop, faced by over half the market, RONA has developed attractive and flexible solutions for dealers to resolve issues and accelerate growth.

The company is the only one in the North American hardware and renovation industry to be both a retailer and a distributor. From this unique position, RONA can

A SHARED VISION: With each succeeding year, RONA’s dealer affiliate program provides greater benefits to the company, to the new affiliates and to consumers.

Customer expectation

Powerful, creative retailers such as RONA are indirectly fuelling ever higher expectations among consumers. Products are expected to be in stock, knowledgeable service is expected to accompany warehouse-level pricing, and consumers expect spacious and well-lit premises. Independents increasingly face the need for resources to upgrade locations and train their workforce.

Choice and price

Consumers in all retail fields have more demands, which take a more complex supply chain to meet, as well as more sophisticated supply management tools.

offer a wide range of features in support of a strategy to help each dealer to become number one in his market.

These include:

- > The most important purchasing power in the Canadian industry as a result of the company’s lead role in A.R.E.N.A., a \$28 billion-a-year global buying consortium.
- > A sophisticated merchandising and distribution capability with nine distribution centres across the country.



1 - Affiliate dealer-owner, **Rob McKay** from Black Diamond, Alberta. **2** - Affiliate dealer-owners **Serge Lalonde** and **Robert Lalonde** of J. Lalonde and Son, Hammond, Ontario. **3** - From the Merchandising department, **Serge Brossard**, Negotiator, Commodity trading; **Danny Karch**, National Director of Forest Product negotiations; **Virginie Lemaire**, Forest product assistant, Commodity trading; and **Pierre Leclerc**, Negotiator, Commodity trading.

- > A fast growing RONA proprietary brand with above average quality and margins.
- > A corporate commitment to sustainable development which will result in new, eco-responsible products and processes.
- > The industry's most powerful marketing plan representing a \$140 million investment per year, and which includes a major sponsorship built around the 2010 Vancouver Winter Olympic and Paralympic Games.
- > Training, technology and systems support: every tool developed for corporate stores is shared with affiliates.

- > Rapid integration. The company's IT capability covers off the systems that represent 90% of independent dealers in Canada.

In addition, RONA makes a point of offering knowledge and guidance in developing business and succession plans.

The rapid rise in consumer awareness of the RONA brand is a valuable part of the offering in its own right. Bill and Christine Corbett bought a building centre in Northern Ontario and switched to RONA; since then, overall sales have climbed 30% and profits have increased 45% in plumbing alone.

Review of Operations

RONA: At the corner of Bay and Main

Even when it became a public company on Bay Street with many new responsibilities, and went from being a regional to a national leader, RONA has never forgotten its roots. For over 65 years, RONA has been a Main Street shop with a Main Street culture.

“We have a saying here that you can find us on the corner of Bay Street and Main Street,” says Robert Dutton, President and CEO. “We’re all hardware merchants at heart.”

This spirit is at the core of RONA’s highly successful dealer strategy. Although affiliates receive sophisticated support in the form of market planning, business and successions plans and management tools, RONA also knows how to let the dealer get on with his business.

For years, John Albi resisted calls from larger companies and co-ops to partner up because he valued his independence. When he did sign up with RONA, and the company helped him expand into a larger store in Newcastle, Ontario, he was amazed at the support he received.

“They helped with everything,” says Albi, “including financing plans and negotiating with the landlord. It was a complete turnkey package but, most important to me, I still kept my independence. “At the end of the day, it’s my team, my business and RONA respects that.”

“It’s the RONA name,” says Bill Corbett. “Customers are happy because of both the selection and the pricing. And so are vendors. When you say you’re with RONA, they bend over backwards for you.”

RONA’s corporate growth from this vector comes not only from the growing number of new dealers each year but also the expansion of existing affiliates. In the past five years, affiliates have invested almost \$200 million in their own development resulting in more than 500 modernization or expansion projects.

RONA is constantly developing the affiliate formula and expects growth to continue for some time. The company believes that the market share of independent dealers will shrink by about 20% over the next decade, but that these dealers will remain an important force in the marketplace in one of two configurations.

> As small, regional chains, well anchored in their communities, or

> As members of a strong, disciplined group able to offer powerful branding and innovative dealer development tools.

“We have established that we want to be the group that really understands the needs of the independents, that shares their vision and represents the best solution,” says Claude Bernier. “We have developed a powerful package, unique in the industry, which gives them the support they need and still leaves them with the freedom they want to grow their business. I think we are succeeding.”



Acquisitions

1 - Jim Anderson, Regional Manager, Noble Trade; Gilbert Nolasco, Vice President, Integration; Michael Storfer, Vice President, Commercial and Professional Market and President of Noble Trade; and Bob Farrugia, Vice President, Finance, Noble Trade; at the head office branch of Noble Trade in Concord, Ontario. **2** and **3** - Dick's Lumber from the Vancouver area, British Columbia, was acquired in 2007.

As Canada's leading distributor and retailer of home improvement products, RONA has strong knowledge of contractors and tradesmen. Growth since its IPO in 2002, however, has been built primarily with consumers, creating a powerful retail network coast-to-coast.

A new Commercial and Professional division

Late in 2007, following a string of acquisitions in the commercial and professional sector, RONA formalized its presence in this growing market segment with the creation of a Commercial and Professional Market division.

"RONA has made a very significant move recognizing the difference between the consumer and the professional contractor," says Michael Storfer, Vice President of the new Commercial and Professional Market division.

"As a division of RONA, we have a tremendous opportunity. Our first task is to build a position of strength in specific categories regionally, en route to the development of a national platform to supply these professional customers. We are fortunate the new division can leverage the tremendous relationships RONA has built with the customers, vendors and communities they have served in the retail market."

The road to the new division began in 2005, with the creation of Pro Services, which dedicated a team of employees to meeting the needs of the ICI (Industrial, Commercial and Institutional) sector.

The following year saw the acquisitions of two lumber and building materials suppliers. These were Matériaux Coupal, in Quebec, and Curtis Lumber in British Columbia.

Two more acquisitions were realized in 2007 and supplied the critical mass to create the new specialty division. Noble Trade is a leader in the Ontario Plumbing and HVAC (Heating, Ventilating and Air Conditioning) markets with 19 branches and sales of \$150 million. Dick's Lumber is another forest products specialist in the Vancouver area with three stores and sales of \$100 million.

The addition of Dick's Lumber gives RONA a total of 53 stores in British Columbia.

Only a few days into the New Year, RONA acquired Ontario Plumbing and Heating Specialist Best-MAR, adding \$20 million in revenues and stores located in Cornwall, Ottawa, and Brockville.

"Product availability, as well as responsive and reliable service, are essential due to both the time constraints and costs of operation in the construction industry. We guarantee a range of services based on a culture that is proactive to meet the needs of our customers. For example, if a customer calls at 2 a.m., we can have the materials on the job site before 7 a.m."

Prior to the creation of the new division, close to 10% of RONA store sales came from professionals using the Contractor Desk in many RONA stores. The new division will take over responsibility for the Contractor Desk and has plans to grow the business with accompanying synergies.

Storfer views professionals as most likely to handle their own home renovation projects on weekends, creating cross-over opportunities to promote the diversity and availability of products in the RONA stores.

Three smaller acquisitions took place in 2007, adding to the consumer retail network. Centre de Rénovation André Lessard in St-Georges de Beauce, Quebec consists of 18,000 square feet of retail space. Two affiliated

A NEW PATH: RONA turned to its acquisition activity to deliver a new thrust it has been contemplating. The result was creation of the Commercial and Professional Market Division in 2007 and a new line of business.

The new Division made up of these components hits the street running with over half a billion dollars in sales, 40 points of sale and leading positions in specific product categories in B.C., Ontario and Quebec.

The commercial and professional market is estimated at \$70 billion in Canada, twice the volume of the consumer retail market. The new division will benefit from synergies with the retail group, but will also be carving out new territories and initiatives.

"We created a new division because the expectations of the professional customer are markedly different," explains Storfer, who is also President of Noble Trade.

dealers in Quebec, BSRB and Decoren, were also purchased during the year.

A solid approach to acquisition and integration

The company's strict acquisition criteria require that the target company be profitable and with skilled management in place. Earnings must be accretive before considering synergies and there must be potential to unlock value through the merger.

"We are the consolidator in the Canadian home improvement market, and acquisitions form a very important part of our growth strategy," says Claude Guévin, Executive Vice President and Chief Financial

Review of Operations

Officer. “We are also very selective and focus on the efficiencies. Over the years, we have demonstrated our ability to rapidly realize recurrent annual synergies.”

RONA inherits more than sales volume from its acquisitions. The strategy has also introduced best practices that have helped to grow business in other parts of the company.

An example is that of Totem, a home improvement leader with 16 points of sale in Alberta that was acquired in 2005. Totem was one of the highest performers in 2007 on the basis of same-store sales.

“Their culture is very similar to ours, which interested us from the start,” says Claude Bernier, Executive Vice President of Proximity and Specialized Stores. “They have a slightly different approach to customer service, to the way they train employees and approach the customer.

“We are continually testing new ways to improve margins. We have studied the business model of Totem to see what we can learn from their way of doing things and whether these practices could benefit us in other parts of the network.”

RONA expects to continue its acquisition strategies in both the consumer retail market and the commercial and professional market in 2008. These two markets are still fragmented and they continue to offer very interesting opportunities.

“RONA has developed over the years a solid expertise in integrating new companies into its business model. In each transaction, we work very closely with the management team and employees of the acquired company to ensure a thorough understanding of the new business, to share the best practices and to ensure the integration of the RONA’s culture and values. This important process is rapidly implemented and a multi-disciplinary team with people from both organizations is put in place. This approach has proven to be very successful,” explained Gilbert Nolasco, Vice-President, Integration.

1 - In late 2007, the Commercial and Professional Market division was created. **Dave Sawkins**, Curtis Lumber; **Nigel Rose**, Dick’s Lumber; **Louis Grondin**, Commercial and Professional Market; **Michael Storfer**, Vice President, Commercial and Professional Market; **Keith Araki**, Dick’s Lumber; **Mike Dumoulin**, Best-MAR; **François Doucet**, Matériaux Coupal; **Frédéric Soucy**, Commercial Market.



RONA subscribes to the definition of sustainable development proposed in 1987 by the report of the World Commission on Environment and Development, *Our Common Future*: “development that meets the needs of the present without compromising the ability of future generations to meet their own needs.”

Sustainable development doesn't change our *reason for being* in business – which is to grow our business through high quality service and efficiency. What it does determine, on the other hand, is our *way of being* in business. Our commitment to sustainable development must be central to life at RONA and a test we must pass in everything we do on an ongoing basis.

This commitment to sustainable development is not only the duty of the good corporate citizen, it has also become an imperative for doing business. Besides its positioning, a company's conduct and practices have today become criteria of choice for prospective consumers and employees.

- > Our code of conduct, which defines ethical rules that must govern our behaviour. This code applies to our suppliers as well as to our employees.
- > Our responsible purchasing policy, which establishes the rule that we should develop business ties only with those suppliers and partners who respect the environment and workers' rights.

Sustainable development is an ongoing project, a process that is never completed. In 2007, to move this process ahead, we put some new and important features in place:

- > We created the Sustainable Development Committee, which brings together managers from all RONA sectors. It is indeed fundamental that sustainable development not be treated as the sole domain of any one administrative unit but as a *way of being* for all sectors in the company.
- > We also created the ECOMmittee made up of 15 employees from all sectors of the company and from every region in Canada. The ECOMmittee makes concrete suggestions for responsible use of our resources and the environment.

RESPECT FOR THE FUTURE

RONA has been in business for almost 70 years. A success story that spans decades requires a culture that values and respects the future: its own future, of course, but also the future of its stakeholders – customers, employees, suppliers, neighbours and fellow citizens.

Our commitment and how it works

RONA intends to become the industry's standard for sustainable development in Canada. We will exercise our leadership through our product selection and services and through our management tools and practices as well.

The basis of our commitment to sustainable development is our values: service, respect, unity, a sense of responsibility, and pursuit of the common good.

These values are embodied in certain frameworks we have adopted, particularly:

- > We have become involved with two university chairs. At HEC Montréal, we have become partners in the new Chair in Ethical Management. We are also partnering with the International Chair in Life Cycle Assessment at the École Polytechnique de Montréal. In addition to furthering the advancement of knowledge in their respective fields, both these groups of experts will collaborate with us in the future, training our managers and helping us choose eco-responsible products to offer our customers.

In order to contribute to our world, our company must guarantee its own economic survival. This requires efficient operations, returns sufficient to attract the investment our company's sustainable development requires, and reinvestment of a sufficient share of our profits back into our company to finance this development.

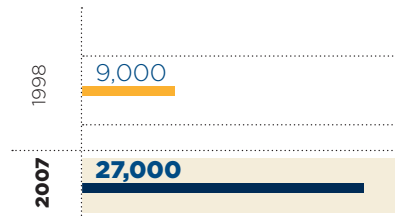
For the past decade, RONA's business volume has grown at an annual compound rate of 21.4%. Roughly half this growth is internal: higher sales in existing stores, new store construction, recruitment of new affiliates. The other half is the result of acquisitions during this time, particularly since 2000. In our opinion, these acquisitions are more than a mere amalgamation of different organizations. On the contrary, they create real value, and promote the viability of the activities and jobs in RONA and within the acquired companies.

This growth has generated value for an ever-growing number of RONA employees.

As RONA makes approximately 90% of its purchases from Canadian suppliers, our growth is also contributing to the economic prosperity of Canada.

A strong balance sheet is a measure of a company's viability. RONA exercises prudent management of its asset base. We pay no dividends, and all earnings are dedicated to investing in our growth. Any new capital required for growth is assembled on the best possible terms so as to maintain a strong balance sheet and guarantee continued access to financial markets.

Number of employees for RONA and its network between 1998 and 2007



Respect for the future: An economically viable company

1 - France Réhel, Director, People and Culture; and **Thierry C. Pauchant**, Holder of the Chair in Ethical Management, HEC Montréal.
2 - Robert Dutton, President and Chief Executive Officer of RONA; **Louise Deschênes**, Co-chairholder, International Chair in Life Cycle Assessment, École Polytechnique de Montréal; **Normand Dumont**, Executive Vice President, Merchandising, RONA; and **Réjean Samson**, Co-chairholder, International Chair in Life Cycle Assessment.



1



INTERNATIONAL CHAIR
IN LIFE CYCLE ASSESSMENT



2

We think employee commitment is an indicator of our success. RONA periodically compiles an Employee Motivation Index, which measures our employees' sense of commitment to RONA. This index has risen 50% from 2004 to 2007, even though the number of employees grew from 20,000 to 27,000 in that same period. Our index is significantly higher than the index for our reference market.

Health and safety in the workplace are foremost among our concerns. The refunds and credits we have obtained in the past three to five years with various provincial health and safety insurance companies are proof of our effectiveness in this sector.

Nearly 7,000 of our employees are unionized. Our relations with the unions are good, as the long-term collective agreements we have signed with them prove. For example, the agreement signed in 2007 with the employees at our main Distribution Centre in Boucherville, Quebec is for a period of nine years. The two previous agreements had been for six years each. We dedicate major resources to training our employees, particularly in knowledge about our products

and in customer service skills. Every year, 4,000 employees go to the RONA Academy. In class, RONA suppliers familiarize our employees with their products. Additionally, the IC4 program is an online study program, which employees in our stores can take during working hours. In this way, RONA employees attended over 280,000 individual 30-minute sessions in 2008, 45% more than the year before.

To build employee service skills and reward excellence, RONA introduced the AGP program – for Acknowledge, Guide and Provide – a number of years ago.

Community involvement

Respecting the future also means investing time and money in community projects.

The RONA Foundation provides assistance for underprivileged young people between the ages of 12 and 30. It supports organizations that fight the school dropout problem and illiteracy, or that offer training that allows young people to work in a trade or profession. In 2007, the RONA Foundation distributed \$426,500 to some 40 projects and organizations, bringing its total

Respect for the future: People helping people

1 - For nearly 15 years, RONA has been supporting **Les Impatients**, a Montreal-based organization devoted to provide a place of artistic and therapeutic expression for people with mental health problems and promote dialogue with the community through their artistic work. **2** - For the fourth year in a row, RONA's employees take part in the RONA MS Bike Tour, in support of the Multiple Sclerosis Society of Canada. **3** and **4** - **Aisha Sheikh** of the Children's Aid Foundation, Ontario; and **Jasmine Bong** of Richmond Youth Services – Skills Link Program, British Columbia; received support from the RONA Foundation in 2007.



contributions to third parties to over \$1.7 million since its founding in 1998.

RONA's involvement in the community is likewise expressed in the substantial resources contributed to hundreds of community organizations across the country by store managers and dealers in our 679 stores.

RONA's philanthropic contributions and sponsorships totalled more than \$600,000 in 2007. RONA has also committed nearly \$2 million towards financing two major university research chairs: the Chair in Ethical Management at the École des Hautes Études Commerciales (HEC Montréal) and the International Chair in Life Cycle Assessment at the École Polytechnique de Montréal.

We make sure that the considerable resources we devote to marketing – over \$140 million in 2007 – will concurrently sustain the growth of our business and the growth of the Canadian communities we serve as a whole.

We are an official partner of the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC). In return for a contribution worth approximately \$67 million, we obtained sponsorship

rights for the 2010 Winter Games in Vancouver, as well as sponsorship rights for the Canadian Olympic Team at Turin in 2006, Beijing in 2008, Vancouver in 2010 and London in 2012. Of course we expect visibility from this collaboration with Canada's Olympic movement. But it is also essential that this should contribute to the success of the 2010 Winter Games and the development of outstanding athletes in Canada.

RONA and VANOC joined community organizations to set up the RONA Fabrication Shop which is responsible for making some 8,000 wood products that will be needed for the 2010 Winter Games sites, including podiums and wheelchair access ramps. This fabrication shop is the cornerstone of a community training project for individuals who have not yet managed to find their place in the labour market.

We are also the principal sponsor of the RONA MS Bike tour, a series of cycling events organized in every region of Canada for the benefit of the Multiple Sclerosis Society of Canada. In 2007, some 235 RONA employees in 14 Canadian cities and towns took part in this event and helped raise over \$130,000.

RONA will be a success if all our 27,000 employees have the motivation to care deeply about their customers. RONA's capacity to attract, retain and motivate talent is a crucial condition for our company's sustainable development.



RONA
NATIONAL PARTNER



RONA
NATIONAL PARTNER

RONA
Foundation

RONA's partnership with the International Chair in Life Cycle Assessment was one of the highlights of 2007, and is central to some major initiatives brought forward over the past year. The life cycle approach seeks to minimize a given product's negative effects on the environment...from manufacturing to final disposal, including its actual use.

The 2008 Spring Tradeshow, held in fall 2007 for RONA affiliates and store managers, included an Eco-responsible Zone where RONA store managers and dealers were offered over 400 eco-responsible products – some already available in RONA stores and the rest due for release by spring 2008 at the latest. In cooperation with the International Chair in Life Cycle Assessment and its team, this line of products was developed specifically for their environmentally friendly features.

We also announced the spring 2008 launch of an all-new line of private label RONA Eco brand products. Every product released under the new brand will be subjected to a rigorous life cycle assessment process and will have to meet pre-established criteria developed with the independent experts at the International Chair in Life Cycle Assessment. The RONA Eco brand is a first in our industry.

No other retailer has ever associated its name and reputation with an eco-responsible product before.

Partnership with the Life Cycle Chair will also lead to development of a set of specifications for all the products we sell. RONA's eco-responsible strategy will extend to our suppliers as well, for example, to assess the life cycle of their products so as to include more economical packaging and more careful attention to the nature and quantities of raw materials used.

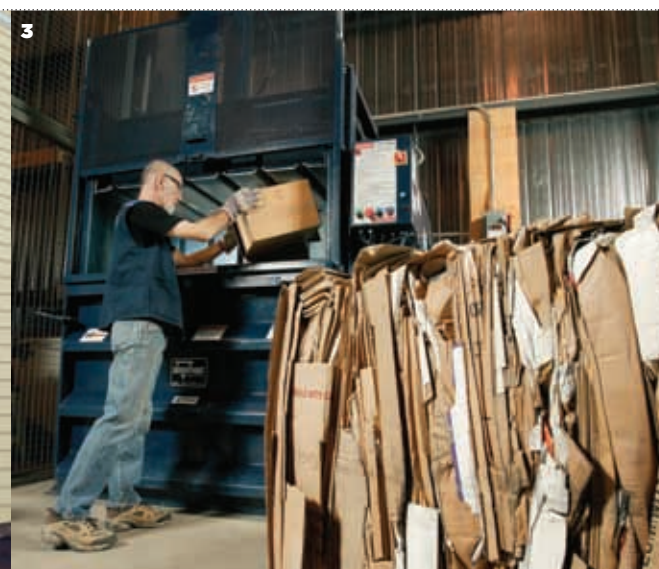
Used Paint Recovery program now 10 years old

As Canada's largest paint retailer, RONA has for years pioneered the recycling of used and leftover paint products. Ten years ago, we took a stand on introducing a used paint recovery and revalorization program, the only one of its kind in North America. Consumers are invited to bring their paint leftovers and empty containers to RONA or Réno-Dépôt stores in Quebec. To date RONA has recovered over 3.6 million paint containers – fully 30% of all used paint recovered in the province.

RONA sends the used paint to Peintures récupérées du Québec. About 80% of this waste (containers as

Respecting the future: Reducing our environmental footprint

1 - Robert Dutton, President and Chief Executive Officer; with **Steven Guilbault**, Environmentalist, founder and spokesperson of Equiterre. Mr. Guilbault addressed the store managers and dealer-owners at the RONA 2008 Spring Show. **2** - One of the key features of the eco-responsible zone at the 2008 RONA Spring Show : a house with a green roof where eco-responsible products were on display. **3** - A RONA Pierrefonds employee operating the cardboard hydraulic press to produce cardboard bundles, one of the steps of our in-store cardboard recovery program. **4** - In 2007, RONA celebrated the 10th anniversary of its paint recovery program.



well as contents) is then recycled or revalorized and put back on the market under the “Boomerang” brand. Boomerang recycled paint has been sold in RONA stores in Quebec since 2000 and is now available in R no-D p t stores as well.

By encouraging recovery of these products RONA offers an economical and ecological alternative to landfill site burial or incineration.

Other recovery programs in our network

At all our distribution centres we make sure that all plastic wrapping used on pallets and all cardboard boxes are recovered or recycled instead of being destroyed after use. In 2007 we recovered some 3,800 tons of boxboard and over 80 tons of plastic. There is still major potential for further recovery of materials across our network, which we intend to do more about in 2008.

Responsible use of resources

Our largest distribution centres – Boucherville, Terrebonne and Calgary – and our head office are also our most recent buildings. The heating and lighting systems in these buildings use advanced smart energy technologies.

We estimate that this controlled use of energy allows consumption savings on the order of 15% to 20% per year.

RONA's large fleet of trucks is equipped with speed limiters, as well as “black boxes” that record parameters such as engine RPM and vehicle speeds. Besides improving safety, these measures encourage the most efficient use of gasoline and diesel fuel.

Flyers

Flyers are a highly effective means of reaching consumers to inform them about available products, sales and the best seasonal buys. Major volumes of paper are associated with this activity. In 2007, 65% of our flyers were printed on 100% recycled paper. Our goal is to increase this percentage if and when more recycled paper becomes available.

Despite the progress we've made in recent years, there is still huge potential for RONA to do even more to protect the environment, both within our network and with our suppliers and customers. Respect for the environment must remain a long-term, enduring concern for all of us...in all we do.

Given RONA's determination to be the industry's leader in sustainable development in Canada, the company also intends to become THE benchmark for ecology in our sector nationwide. Which is why we're adopting a rigorous life cycle approach that sets us apart from our competitors and meets present-day consumer expectations.





Message from the Chairman of the Board and Governance

Jean Gaulin
Corporate Director
Chairman of the Board
of RONA

Effective and transparent governance assures that the company is managed and monitored in a responsible and value-driven manner.

Effective and Transparent Governance

RONA is committed to good governance. It builds the confidence in our company of our investors, the financial markets, our business partners, our dealers, our customers and our employees. Our Board continues to take all measures necessary to ensure that our governance is to the highest of standards.

On May 8, 2007, following the Annual General Meeting, I was privileged to replace André H. Gagnon as Chairman of the Board of Directors. André served as a Director for 36 years and as Chairman since 2002. His experience, and the wisdom accumulated over 50 years in retailing, is missed, but he still retains strong ties with RONA as one of our largest dealer-owners.

At the 2007 annual general meeting, we were happy to welcome two new members to the Board, namely Doris Joan Daughney and Robert Sartor. Mrs. Daughney is from British Columbia, where she is past President

and CEO of BC Pavilion Corporation, a company that manages extensive tourist facilities in the province. Mr. Sartor lives in Alberta and is Chief Executive Officer of The Forzani Group Ltd., the largest retailer of sports products in Canada. I believe their strong backgrounds and expertise in the retail business is a great addition to our Board of Directors.

Independence of the Board

One of the most important pillars of governance is the independence of the Board of Directors. Best practices dictate that the majority of the Directors be independent

of management and have no material relationship to the Company, other than Director fees and share ownership.

In 2007, 10 of RONA's 13 Directors qualified as independent, including myself as Chairman, under the standards of independence of the Canadian Securities Administrators. The Directors who are not independent are Robert Dutton, who is the company's President and Chief Executive Officer, as well as Louise Caya and Jean-Guy Hébert, two dealer-owners bringing to the Board strong operational expertise.

Looking back at 2007

It was a challenging year in our industry and no less so for RONA. Fortunately, I believe we have an outstanding management group and the Company's success as a public company bears that out. Although RONA will be 70 years old in 2009, we have only been a public company since 2002. However, in that time, we have grown rapidly to become the leader in our industry in Canada.

We owe a lot to our employees, who each year play a bigger role in our success. Every year sees a more significant

investment on our part in training and internal communications and it is rewarded by the enthusiasm and constant improvement in the skills and attitudes of our people.

RONA's values are based in ethical conduct and form the foundation of a culture in which we all participate wholeheartedly. There is indeed a difference in how RONA does business, and it is demonstrated on a daily basis by staff and management alike.

Our management and employees represent key assets that build long-term value at RONA.

RONA works diligently to improve its governance and our efforts are recognized. In 2007, a survey of best practices among major Canadian public companies by the Globe and Mail newspaper, ranked RONA higher than any other Canadian retailer and 21st overall out of 196 public companies rated.

Another key element in building long-term value can be seen in the company's strong commitment to sustainable development.

Board of Directors

Jean Gaulin, Corporate Director, Chairman of the Board of RONA **1 - Robert Dutton**¹, President and Chief Executive Officer **2 - Louise Caya**, Vice-President and Secretary of Thomas Caya (1982) inc. (hardware store) and Vice-President and Controller, Industrie Fabco Inc. **3 - Doris Joan Daughney**, Corporate Director **4 - Pierre Ducros**, Corporate Director **5 - Jean-Guy Hébert**, President of Maximat Inc. (holding company), of Horizon Devcow Inc. (real estate), Dealer, RONA L'entrepôt (Granby) **6 - J. Spencer Lanthier**, Corporate Director **7 - Alain Michel**, Chairman of the Board of Cari-All Group Inc. (manufacturer of shopping carts) and Corporate Director **8 - James Pantelidis**, Chairman of the Board of Directors of Consumers' Waterheater Income Fund (energy heating) and of Parkland Income Fund (energy downstream), and Corporate Director **9 - Robert Sartor**, Chief Executive Officer, the Forzani Group, Ltd **10 - Louis A. Tanguay**, Corporate Director **11 - Jocelyn Tremblay**, President and Chief Executive Officer of Vins Arista inc. (Groupe Lassonde) (wine merchant) and Vice-President, Corporate Affairs, Vins Philippe Dandurand inc. (wine agent) **12 - Jean-Roch Vachon**, Corporate Director

¹ Mr. Dutton has been the President and Chief Executive Officer since 1992. Prior to that, Mr. Dutton held many positions within the Company, including Executive Vice-President and Chief Operating Officer from 1990 to 1992.



RONA's partnership with the International Chair in Life Cycle Assessment at l'École Polytechnique de Montréal confirms the seriousness of our commitment. We are demonstrating a way of doing business that strives to balance the values of all stakeholders, including our shareholders.

RONA is also a participant in the Chair of Ethical Management at HEC Montreal, a chair dedicated to encourage the integrity of people at work.

Encouragement of others was also behind the launch of the RONA Fabrication Shop in Vancouver, which will build items required at the Vancouver 2010 Olympic Winter Games. This community-based training program will extend the positive effects of the Games into the community, a project that matches our strong values and commitment to sustainable development.

View Forward

We expect 2008 will continue to be challenging, given the economic uncertainties. We have a great management team and I am confident that we also have the business model and strategies with which to continue to create long-term value.

In 2008, RONA will launch its new strategic plan for the next four years. It is a sound plan and I have great confidence in management's ability to execute it with distinction.



Jean Gaulin

Chairman of the Board

The Board of Directors

The Board of Directors is responsible for supervision of the management of the Company's business and affairs, with the objective of maximizing long-term value. The Board discharges important responsibilities regarding strategic planning, financial matters, human resources and corporate governance.

Maintaining effective governance practice is, in our opinion, an important factor which contributes to the general success of the Company.

Meetings of the Board are held at least quarterly and independent Directors meet regularly without management or non-independent Directors present. In addition, meetings of the Board are held to review the Company's strategic plan and to analyze the budget and projects of the coming year.

Committees of the Board

The Board is assisted in discharging its duties by four committees which study specific issues in depth. All of these committees are chaired by independent Directors.

The Audit Committee

The Audit Committee assists the Board of Directors in its oversight of the financial information of the Company.

This includes the production of reliable financial information, the identification of the principal financial risks associated with the Company's activities, the oversight of external and internal auditors as well as the internal controls.

Chair: J. Spencer Lanthier

Members: Pierre Ducros, Alain Michel, Robert Sartor and Jean-Roch Vachon

The Human Resources and Compensation Committee

The Human Resources and Compensation Committee assists the Board regarding recruitment, evaluation, compensation and succession planning for the Company's executive officers and other employees.

Chair: Louis A. Tanguay

Members: James Pantelidis, Robert Sartor, and Jocelyn Tremblay

The Nominating and Governance Committee

The Nominating and Governance Committee assists the Board in the development of the Company's approach to corporate governance, selection of new Director nominees, Directors' compensation and in assessing the effectiveness of the Board of Directors and its committees, their respective chairs and each Director.

Chair: Pierre Ducros

Members: Doris Joan Daughney, Alain Michel, Louis A. Tanguay and Jocelyn Tremblay

The Development Committee

The Development Committee assists the Board in the development of the Company's approach to real estate matters. The responsibilities of the committee include reviewing real estate investment opportunities submitted by management and, more specifically, the most important leases or building of new stores to add to the Company's network.

Chair: Jean-Roch Vachon

Members: Louise Caya, Jean-Guy Hébert and James Pantelidis



France Charlebois
Corporate Secretary and
Chief Legal Officer

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

RONA’s sales include:

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

Annual Management’s Discussion and Analysis

Fiscal year ended December 30, 2007

Financial statements

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

Non-GAAP performance measure

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

While EBITDA does not have a meaning standardized by generally accepted accounting principles in Canada (GAAP), it is widely used in our industry and financial circles to measure the profitability of operations, excluding tax considerations and the cost and use of capital. Given that it is not standardized, EBITDA cannot be compared

from one company to the next. Still, we establish it in the same way for the segments identified, and, unless expressly mentioned, our method does not change over time.

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

Stock split

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

Fiscal year

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

RONA: key figures

For 2007, 2006 and 2005

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

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

Note: The Company did not pay dividends during these three years.

* See "Fiscal year".

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

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

Financial highlights

(In thousands of dollars, except figures relating to earnings per share, diluted earnings per share, shares and percentages)

	2007	2006*	2005	2004	2003	2002
Results of operations						
Sales	\$ 4,785,106	\$ 4,551,936	\$ 4,026,424	\$ 3,625,866	\$ 2,666,167	\$ 2,293,304
Percentage increase	5.1%	13.1%	11.0%	36.0%	16.3%	27.4%
Operating income (EBITDA)	400,207	383,882	333,604	278,351	175,063	128,784
Net earnings	185,089	190,584	175,210	138,225	77,947	43,114
Earnings per share	1.61	1.66	1.53	1.22	0.73	0.56
Diluted earnings per share**	1.59	1.64	1.51	1.20	0.72	0.54
Common shares						
Outstanding**	115,412,766	114,935,569	114,412,744	113,957,270	113,614,130	95,243,888
Cash flows from operating activities	276,809	283,437	158,712	107,252	114,135	83,257
Financial structure						
Total assets	2,482,446	2,108,382	1,667,616	1,336,745	1,262,022	766,434
Shareholders' equity	1,325,206	1,134,366	936,184	752,695	610,283	385,702
Long-term debt	602,537	455,310	230,300	137,330	163,925	99,337

* Fiscal 2006 had 53 weeks.

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

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

Annual Management's Discussion and Analysis

Highlights of the last three years

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

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

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

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

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

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

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

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

	2001	2000	1999	1998	1997
\$	1,800,389	\$ 1,288,693	\$ 960,548	\$ 798,828	\$ 688,841
	39.7%	34.2%	20.2%	16.0%	6.9%
	90,528	60,088	37,175	30,570	25,734
	24,633	18,013	14,706	13,511	11,063
	0.37	0.29	0.23	0.21	0.20
	0.36	0.28	0.22	0.20	0.20
	73,747,304	57,683,560	60,928,128	62,365,128	64,341,984
	68,038	33,051	(5,617)	30,615	10,240
	744,076	450,973	287,916	253,575	165,692
	211,820	132,658	121,002	108,683	98,189
	283,788	104,514	36,242	34,877	4,639

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

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

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

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

Update on the company's strategic orientation

Economic Conditions

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

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

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

The strength of the Canadian economy is reflected in recent housing resale statistics. According to statistics published by the Canadian Real Estate Association (CREA), resale housing activity once again made solid advances in 2007. This high activity level also stimulated the average resale price for homes, which increased more than 11% over the last 12 months in Canada's main residential markets.

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

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

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

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

The RONA network

On February 19, 2008, the RONA network comprised 679 stores. During the year, 38 stores were added to the network. Acquisitions added 26 points of sale. Six new RONA big-box stores also opened: four in Ontario, one in Alberta, and one in Quebec. The big-box store in Brossard, Quebec, moved to a new, more promising site and the big-box store in Pont-Viau (Laval) in Quebec, was transformed into a proximity store. Three proximity stores also opened in 2007. The first in Edmundston, New Brunswick, the second in Leamington, Ontario, and the most recent, in Collingwood, Ontario. With the openings in Leamington and Collingwood, two small specialized consumer stores closed in these regions. In addition, 27 affiliate stores were recruited and three affiliate stores in Quebec were acquired by RONA, becoming corporate proximity stores. Finally, other corporate or affiliate stores closed or merged.

Annual Management's Discussion and Analysis

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

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

9 distribution centres (7 in 2007)

* February 19, 2008

** February 20, 2007

*** Institutional, commercial and industrial

7-07 Program

RONA's development relies on four growth vectors:

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

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

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

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

In December, RONA completed the acquisition of 100% of the operating assets and real estate of the Dick's Lumber specialized chain in British Columbia. The company generated more than \$100 million in sales in the 12 months before its acquisition, as well as solid profit margins in its sector. This transaction follows the 2006 Curtis Lumber and Mountain Building Centres acquisitions and the addition of 14 stores in British Columbia in the past two years through store openings and the recruitment of independent dealer-owners. With the addition of Dick's Lumber's three specialized stores in the Vancouver Area, RONA will have 53 retail locations in BC. To pursue our growth through acquisitions, RONA is presently studying several other interesting opportunities.

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

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

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

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

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

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

In terms of recruiting affiliate dealer-owners, we recruited 27 new stores in 2007, adding 208,000 square feet to our network (not including outdoor storage areas) and over \$81 million to our annual retail sales. This result is below our objective of \$200 million for the year. This shortfall does not undermine our fundamental conviction concerning the recruitment of new affiliate dealer-owners – that is, that affiliation with RONA is the best alternative in the country for the support and development of independent dealer-owners. We are convinced that the tightening of the market improves the context for recruiting new affiliates. It seems, however, that current market conditions are forcing some dealer-owners to put greater focus on the short-term profitability of their operations. In the middle term, these conditions should prove favourable for us, however, when these dealer-owners decide they need to join a strong, well-positioned and growing network. Since the fourth quarter of 2007 we have intensified our recruitment efforts and targeted strategic players in certain purchasing groups. Considering the numerous meetings we held with independent dealers in the last few months, Management remains confident about the strong growth potential of this vector in 2008.

Results

Sales up 5.1%

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

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

Operating income up 4.3%

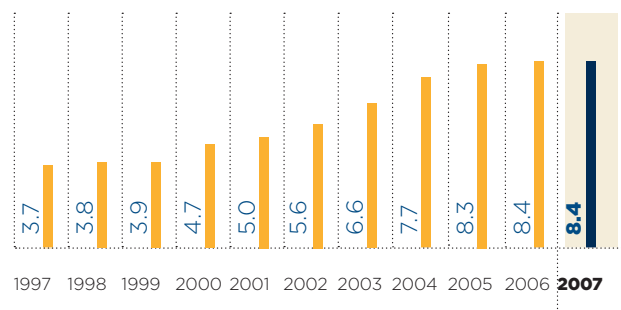
Operating income reached \$400.2 million in 2007, up 4.3% over 2006.

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

Annual Management's Discussion and Analysis

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

RONA: operating margin (%)



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

Interest and depreciation

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

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

Income taxes

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

Net earnings

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

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

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

Analysis of segment results for the year ended December 30, 2007

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

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

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

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

RONA: key segment figures

For the year ended December 30, 2007
(In thousands of dollars)

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

* Fiscal year 2006 included 53 weeks.

RONA: change in same-store sales

Fiscal year 2007 vs 2006

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

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

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

Annual Management's Discussion and Analysis

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

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

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

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

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

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

Cash flows and financial position

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

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

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

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

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

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

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

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

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

RONA: contractual obligations by term

As at December 30, 2007
(In thousands of dollars)

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

RONA: outstanding shares

As at February 15, 2008

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

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

Quarterly performance

Fiscal year 2006 quarterly performance

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

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

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

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

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

Quarterly performance in 2007

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

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

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

Annual Management's Discussion and Analysis

RONA: consolidated quarterly financial results

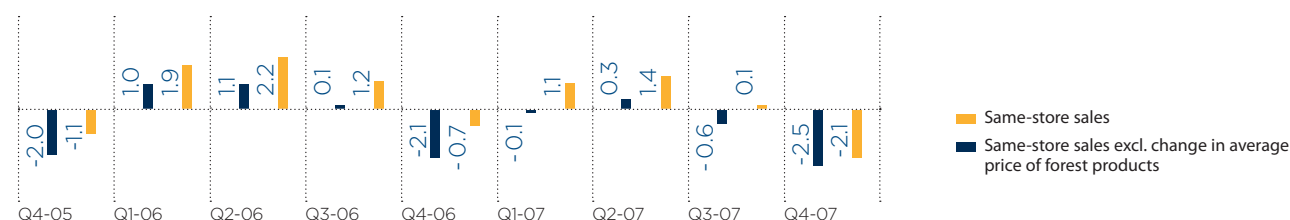
(In millions of dollars, except earnings per share)

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

* Q4 2006 has 14 weeks compared to 13 weeks for the other quarters. 2006 has 53 weeks, compared to 52 weeks for 2007. See "Fiscal year" on page 36.

Annual change in same-store sales

Nine last quarters



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

Fourth quarter 2007

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

Economic conditions

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

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

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

Sales down 4.8%

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

Operating income down 12.5%

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

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

Interest and depreciation

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

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

RONA: key segment figures

Quarter ended December 30, 2007
(In thousands of dollars)

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

* Q4 2006 has 14 weeks versus 13 weeks in 2007. See "Fiscal year" on page 36.

Income taxes

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

Net earnings

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

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

Segment analysis

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

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

Annual Management's Discussion and Analysis

RONA: change in same-store sales

Fourth quarter 2007 vs fourth quarter 2006

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

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

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

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

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

This slowdown in distribution sales also reflects healthy prudence on the part of our affiliate dealer-owners in the face of uncertain economic conditions. The excellent reaction time of our distribution network allows them to manage their own inventory very conservatively. When necessary, they can quickly adjust if traffic in their store surpasses their expectations.

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

Outlook

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

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

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

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

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

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

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

Risks and uncertainties

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

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

Market and competition

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

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

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

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

Economy

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

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

Human resources

To achieve our goals, we have to attract, train and retain a high number of competent employees while maintaining control of our payroll. Our ability to control labour costs is subject to a number of external factors, including remuneration and group insurance rates.

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

Annual Management's Discussion and Analysis

Information technology

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

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

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

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

Reputation

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

Supply chain

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

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

Acquisition/integration/development

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

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

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

Legal and regulatory requirements

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

Accounting standards

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

Availability of financing

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

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

Changes in accounting policies

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

Financial instruments

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

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

- > Cash is classified as a financial asset held for trading and is measured at fair value. All changes in fair value are recognized in earnings. This change had no impact on the Company's consolidated financial statements.
- > Accounts receivable, long-term loans and advances and redeemable preferred shares (included in investments) are classified as loans and receivables and are recognized at cost, which at initial measurement corresponds to fair value. Subsequent revaluations of accounts receivable are recorded at amortized cost, which generally corresponds to initial measurement less any allowance for doubtful accounts. Subsequent revaluations of long-term loans and advances and redeemable preferred shares are recognized at amortized cost using the effective interest method less any amortization. This change had no impact on the Company's consolidated financial statements.
- > Bank loans and accounts payable and accrued liabilities are classified as other financial liabilities. They are initially measured at fair value and subsequent revaluations are recognized at amortized cost using the effective interest method. This change had no impact on the Company's consolidated financial statements.
- > Long-term debt is classified as other financial liabilities. With the exception of the revolving credit, long-term debt is measured at amortized cost, which corresponds to the initially recognized amount plus accumulated amortization of financing costs. The initially recognized amount corresponds to the principal amount of the debt less applicable financing costs. This change resulted in a decrease of \$4.8 million in deferred financing costs (previously included in other assets), a decrease of \$4.9 million in long-term debt and an increase of \$46,000 (\$31,000 net of future income taxes) in opening retained earnings.

> The Company uses derivative financial instruments to manage foreign exchange risk. The Company does not use derivative financial instruments for speculative or trading purposes. The derivatives are classified as liabilities held for trading and are measured at fair value.

The Company also adopted the following accounting policies:

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

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

Comprehensive income

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

Equity

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

Accounting changes

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

Significant accounting estimates

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

Inventory

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

Volume rebates

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

Goodwill and trademarks

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

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

Disclosing financial information

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

Annual Management's Discussion and Analysis

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

Disclosure controls and procedures

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

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

Internal control over financial reporting

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

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

Forward-looking information

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

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

The forward-looking statements in this MD&A reflect the Company's expectations as of February 19, 2008, and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

Additional information

This MD&A was prepared on February 19, 2008. The reader will find additional information concerning RONA, including the Company's Annual Information Form, on the Company's website at www.rona.ca or on SEDAR at www.sedar.com.



Claude Guévin CA

Executive Vice President and Chief Financial Officer



Robert Dutton

President and Chief Executive Officer

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Management's Report on the consolidated financial statements

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

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

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

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



Robert Dutton
President and Chief Executive Officer



Claude Guévin CA
Executive Vice President and Chief Financial Officer

Boucherville, February 11, 2008

Auditors' Report to the shareholders of RONA inc.

We have audited the consolidated balance sheets of RONA inc. as at December 30, 2007 and December 31, 2006 and the consolidated statements of earnings, retained earnings and contributed surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 30, 2007 and December 31, 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Montreal, February 11, 2008

Consolidated Earnings

Years ended December 30, 2007 and December 31, 2006
(In thousands of dollars, except net earnings per share)

	2007	2006
Sales	\$4,785,106	\$4,551,936
Earnings before the following items	400,207	383,882
Interest on long-term debt	28,270	18,728
Interest on bank loans	3,329	3,417
Depreciation and amortization (Notes 10, 11 and 12)	90,901	74,545
	122,500	96,690
Earnings before income taxes and non-controlling interest	277,707	287,192
Income taxes (Note 4)	88,130	92,202
Earnings before non-controlling interest	189,577	194,990
Non-controlling interest	4,488	4,406
Net earnings and comprehensive income	\$ 185,089	\$ 190,584
Net earnings per share (Note 23)		
Basic	\$ 1.61	\$ 1.66
Diluted	\$ 1.59	\$ 1.64

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

Consolidated Retained Earnings Consolidated Contributed Surplus

Years ended December 30, 2007 and December 31, 2006
(In thousands of dollars)

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

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

Consolidated Financial Statements

Consolidated Cash Flows

Years ended December 30, 2007 and December 31, 2006
(In thousands of dollars)

	2007	2006
Operating activities		
Net earnings	\$ 185,089	\$ 190,584
Non-cash items		
Depreciation and amortization	90,901	74,545
Derivative financial instruments	(2,483)	-
Future income taxes	1,894	8,933
Net loss (gain) on disposal of assets	1,041	(1,594)
Compensation cost relating to stock option plans	2,082	2,490
Non-controlling interest	4,488	4,406
Other items	3,158	3,957
	286,170	283,321
Changes in working capital items (Note 5)	(9,361)	116
Cash flows from operating activities	276,809	283,437
Investing activities		
Business acquisitions (Note 6)	(228,502)	(168,872)
Advances to joint ventures and other advances	(2,795)	(5,295)
Other investments	(588)	(1,310)
Fixed assets	(233,662)	(232,173)
Other assets	(9,414)	(10,889)
Disposal of assets	17,028	6,852
Cash flows from investing activities	(457,933)	(411,687)
Financing activities		
Bank loans and revolving credit	156,128	(199,808)
Other long-term debt	1,740	406,302
Financing costs	-	(6,826)
Repayment of other long-term debt and redemption of preferred shares	(36,472)	(21,488)
Issue of common shares	5,318	4,701
Issue of equity securities to non-controlling interest	750	735
Cash dividends paid by a subsidiary to non-controlling interest	(1,960)	-
Redemption of equity securities from non-controlling interest	-	(1,000)
Cash flows from financing activities	125,504	182,616
Net increase (decrease) in cash	(55,620)	54,366
Cash, beginning of year	58,486	4,120
Cash, end of year	\$ 2,866	\$ 58,486
Supplementary information		
Interest paid	\$ 28,555	\$ 15,791
Income taxes paid	\$ 100,952	\$ 80,116

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

Consolidated Balance Sheets

December 30, 2007 and December 31, 2006
(In thousands of dollars)

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

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

On behalf of the Board,

J. Spencer Lanthier
President of the Audit Committee

Jean Gaulin
Chairman of the Board

Notes to Consolidated Financial Statements

December 30, 2007 and December 31, 2006
(In thousands of dollars, except amounts per share)

1. Governing statutes and nature of operations

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

2. Changes in accounting policies

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

Financial instruments

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

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

- > Cash is classified as a financial asset held for trading and is measured at fair value. All changes in fair value are recognized in earnings. This change had no impact on the Company's consolidated financial statements.
- > Accounts receivable, long-term loans and advances and redeemable preferred shares (included in investments) are classified as loans and receivables and are recognized at cost which, at initial measurement, corresponds to fair value. Subsequent revaluations of accounts receivable are recorded at amortized cost which generally corresponds to initial measurement less any allowance for doubtful accounts. Subsequent revaluations of long-term loans and advances and redeemable preferred shares are recognized at amortized cost using the effective interest method less any amortization. This change had no impact on the Company's consolidated financial statements.
- > Bank loans and accounts payable and accrued liabilities are classified as other financial liabilities. They are initially measured at fair value and subsequent revaluations are recognized at amortized cost using the effective interest method. This change had no impact on the Company's consolidated financial statements.
- > Long-term debt is classified as other financial liabilities. With the exception of the revolving credit, long-term debt is measured at amortized cost, which corresponds to the initially recognized amount plus accumulated amortization of financing costs. The initially recognized amount corresponds to the principal amount of the debt less applicable financing costs. This change resulted in a decrease of \$4,824 in deferred financing costs (previously included in other assets), a decrease of \$4,870 in long-term debt and an increase of \$46 (\$31 net of future income taxes) in opening retained earnings.

- > The Company uses derivative financial instruments to manage foreign exchange risk. The Company does not use derivative financial instruments for speculative or trading purposes. The derivatives are classified as liabilities held for trading and are measured at fair value.

The Company also adopted the following accounting policies:

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

Earnings before interest, depreciation and amortization, income taxes and non-controlling interest	\$ 4,219
Net earnings	2,868
Net earnings per share – basic	\$ 0.03
Net earnings per share – diluted	\$ 0.03

Comprehensive income

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

Equity

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

2. Changes in accounting policies (continued)

Accounting changes

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

3. Accounting policies

Accounting estimates

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

Principles of consolidation

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

Revenue recognition

The Company recognizes revenue at the time of sale in stores or upon delivery of the merchandise, when the sale is accepted by the customer and when collection is reasonably assured.

Inventory valuation

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

Vendor rebates

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

Fixed assets

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

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

Impairment of long-lived assets

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

Goodwill and trademarks

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

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

Other assets

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

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

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

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse.

Consolidated Financial Statements

3. Accounting policies (continued)

Other long-term liabilities

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

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

Stock option plans

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

Foreign currency translation

Monetary items on the balance sheet are translated at the exchange rates in effect at year-end, while non-monetary items are translated at the historical rates of exchange. Revenues and expenses are translated at the rates of exchange in effect on the transaction date or at the average exchange rates for the period. Gains or losses resulting from the translation are included in earnings for the year.

Employee future benefits

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

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

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

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

Earnings per share and information pertaining to number of shares

Earnings per share are calculated by dividing net earnings available for common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated taking into account the dilution that would occur if the securities or other agreements for the issuance of common shares were exercised or converted into common shares at the later of the beginning of the period or the issuance date. The treasury stock method is used to determine the dilutive effect of the stock options. This method assumes that proceeds of the stock options during the year are used to redeem common shares at their average price during the period.

Fiscal year

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

4. Income taxes

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

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

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

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

4. Income taxes (continued)

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

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

5. Cash flow information

The changes in working capital items are detailed as follows:

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

6. Business acquisitions

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

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

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

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

7. Accounts receivable

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

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8. Investments

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

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

9. Information on joint ventures

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

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

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

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

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

10. Fixed assets

	2007			2006		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land and parking lots	\$ 166,386	\$ 11,871	\$ 154,515	\$ 119,630	\$ 7,877	\$ 111,753
Buildings	234,995	43,294	191,701	193,371	31,597	161,774
Leasehold improvements	174,231	67,198	107,033	131,309	55,481	75,828
Furniture and equipment	292,670	153,810	138,860	249,259	130,740	118,519
Computer hardware and software	166,544	105,665	60,879	128,230	83,545	44,685
Projects in process ^(a)	71,175	-	71,175	27,220	-	27,220
Land for future development	73,328	-	73,328	72,253	-	72,253
Assets under capital leases ^(b)						
Furniture and equipment	18,690	7,706	10,984	16,501	5,593	10,908
Computer hardware and software	21,372	12,928	8,444	21,118	9,927	11,191
	\$1,219,391	\$ 402,472	\$ 816,919	\$ 958,891	\$ 324,760	\$ 634,131

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

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

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

11. Trademarks

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

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

12. Other assets

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

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

13. Credit facilities

a) Parent company and some subsidiaries

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

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

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

The Company has also set up an unsecured credit facility up to an amount of \$55,000, utilized for the issuance of letters of credit for imports. The terms and conditions to be respected are the same as for the revolving credit. As at December 30, 2007, the amount used is \$29,493.

b) Other subsidiaries

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

c) Joint ventures

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

14. Long-term debt

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

^(a) Effective rate of 5.5%.

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

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

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

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14. Long-term debt (continued)

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

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

15. Other long-term liabilities

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

16. Capital stock

Authorized

Unlimited number of shares

Common shares

Class A preferred shares, issuable in series

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

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

Class C preferred shares, issuable in series

Series 1, non-cumulative dividend equal to 70% of prime rate,
redeemable at their par value of \$1,000 each (Note 14)

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

Issued and fully paid:

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

	December 30, 2007		December 31, 2006	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	114,935,569	\$413,542	114,412,744	\$ 408,943
Issuance in exchange for common share subscription deposits	120,715	2,513	101,696	2,192
Issuance under stock option plans	339,327	1,876	400,550	1,952
Issuance in exchange for cash	17,155	315	20,579	455
Balance before elimination of reciprocal shareholdings	115,412,766	418,246	114,935,569	413,542
Elimination of reciprocal shareholdings	(70,319)	(401)	(54,920)	(301)
Balance, end of year	115,342,447	417,845	114,880,649	413,241
Deposits on common share subscriptions, net of eliminations of joint ventures ^(a)		3,349		2,476
		\$421,194		\$ 415,717

^(a) Deposits on common share subscriptions represent amounts received during the year from affiliated and franchised merchants in accordance with commercial agreements. These deposits are exchanged for common shares on an annual basis.

16. Capital stock (continued)

Stock option plan of May 1, 2002

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

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

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

Stock option plan of October 24, 2002

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

On March 8, 2007, the Board of Directors approved certain modifications to the plan. These modifications were also approved by the shareholders at the annual shareholders' meeting on May 8, 2007. These modifications establish that this plan is no longer applicable to the designated directors of the Company and also provide for the replacement of the terms and conditions for granting options under the plan by a more flexible mechanism for setting the terms and conditions for granting options. The Board of Directors will adopt the most appropriate terms and conditions relative to each type of grant.

For the options granted on March 8, 2007, the Board approved the option grant with vesting over a four-year period following the anniversary date of the grant at 25 % per year.

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

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

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

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

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

Exercise price	Expiration date	Options outstanding	Options exercisable
\$ 3.47	December 31, 2012	1,470,500	1,470,500
\$14.29	December 16, 2013	432,550	432,550
\$20.27	December 22, 2014	417,250	103,750
\$21.21	February 24, 2016	380,000	-
\$21.78	September 1, 2016	17,576	4,394
\$23.58	March 8, 2017	176,100	-
\$23.73	April 5, 2015	11,000	-
\$26.87	February 24, 2016	17,576	-
		2,922,552	2,011,194

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

	December 30, 2007		December 31, 2006	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of year	3,162,479	\$10.16	3,131,327	\$ 7.84
Granted	196,000	23.58	463,652	21.45
Exercised	(339,327)	4.88	(400,550)	4.43
Forfeited	(96,600)	20.94	(31,950)	18.34
Balance, end of year	2,922,552	11.31	3,162,479	10.16
Options exercisable, end of year	2,011,194	\$ 6.70	2,230,927	\$ 6.00

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17. Guarantees

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

The Company guarantees mortgages for an amount of \$2,360. The terms of these loans extend until 2012 and the net carrying amount of the assets held as security, which mainly include land and buildings, is \$6,012.

Pursuant to the terms of inventory repurchase agreements, the Company is committed towards financial institutions to buy back the inventory of certain customers at an average of 62% of the cost of the inventories to a maximum of \$57,246. In the event of recourse, this inventory would be sold in the normal course of the Company's operations. These agreements have undetermined periods but may be cancelled by the Company with a 30-day advance notice. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low.

18. Financial instruments

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

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

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

- > The fair value of accounts receivable, bank loans and accounts payable and accrued liabilities is comparable to their carrying amount, given the short maturity periods;
- > The fair value of loans and advances, substantially all of which have been granted to dealer-owners, has not been determined because such transactions have been conducted to maintain or to develop favourable trade relationships and do not necessarily reflect terms and conditions which would have been negotiated with arm's length parties. Moreover, the Company holds sureties on certain investments which provide it with potential recourse regarding the operations of the dealer-owners in question;
- > The fair value of the revolving credit, mortgage loans and balance of purchase price is equivalent to its carrying amount given that significant loans bear interest at rates that fluctuate with the market rate;
- > The fair value of debentures was determined using market prices;
- > The fair value of class C preferred shares, Series 1 and class D preferred shares, included in long-term debt, approximates their redemption value;

> The fair value of derivative instruments was determined by comparing the original rates of the derivatives with rates prevailing at the revaluation date for contracts having equal values and maturities.

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

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

18. Financial instruments (continued)

Credit risk

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

Liquidity risk

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

Exchange risk

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

Interest rate risk

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

19. Employee future benefits

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

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

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

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial valuations are performed on defined benefit plans for funding purposes every three years. One of the plans will be valued as at December 31, 2007 and the remaining plans will be valued as at December 31, 2009.

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

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

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19. Employee future benefits (continued)

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

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

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

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

20. Commitments

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

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

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

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

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

21. Contingencies

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

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

22. Segmented information

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

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

	2007	2006
Segment sales		
Corporate and franchised stores	\$ 3,720,214	\$ 3,447,426
Distribution	2,296,054	2,256,894
Total	6,016,268	5,704,320
Intersegment sales and royalties		
Corporate and franchised stores	(13,695)	(11,790)
Distribution	(1,217,467)	(1,140,594)
Total	(1,231,162)	(1,152,384)
Sales		
Corporate and franchised stores	3,706,519	3,435,636
Distribution	1,078,587	1,116,300
Total	\$ 4,785,106	\$ 4,551,936

22. Segmented information (continued)

	2007	2006
Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest		
Corporate and franchised stores	\$ 440,390	\$ 413,728
Distribution	89,965	90,382
Total	530,355	504,110
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest		
Corporate and franchised stores	332,017	316,618
Distribution	68,190	67,264
Total	400,207	383,882
Acquisition of fixed assets		
Corporate and franchised stores	242,297	215,781
Distribution	28,857	36,669
Total	271,154	252,450
Goodwill		
Corporate and franchised stores	138,324	64,221
Distribution	-	-
Total	138,324	64,221
Total assets		
Corporate and franchised stores	2,129,570	1,710,202
Distribution	352,876	398,180
Total	\$2,482,446	\$ 2,108,382

23. Earnings per share

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

	2007	2006
Net earnings	\$ 185,089	\$ 190,584
Number of shares (in thousands)		
Weighted average number of shares used to compute basic net earnings per share	115,289.2	114,732.2
Effect of dilutive stock options ^(a)	1,447.4	1,744.8
Weighted average number of shares used to compute diluted net earnings per share	116,736.6	116,477.0
Net earnings per share – basic	\$ 1.61	\$ 1.66
Net earnings per share – diluted	\$ 1.59	\$ 1.64

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

24. Effect of new accounting standards not yet implemented

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

Financial instruments – disclosures

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

Financial instruments – presentation

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

Capital disclosures

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

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

Inventories

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