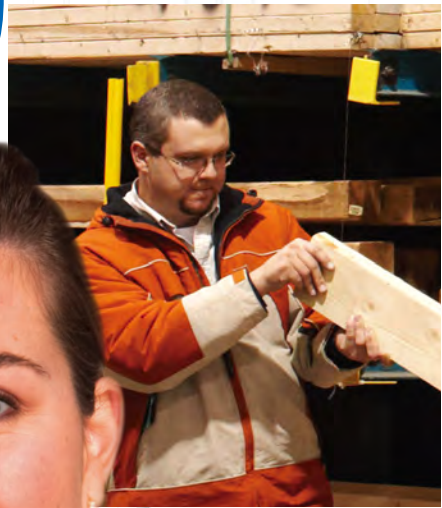


RONA

2008 Annual Report

Taking



the right measures





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

Cover
 Jessica Pagé, RONA L'entrepôt, Laval, Quebec

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A diversified service offering to satisfy a full range of customer needs

Big-box 77 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.

Le Régional, Home & Garden, L'entrepôt, Réno-Dépôt

Proximity and specialized 140 stores

The proximity stores are offering a wide range of seasonal products and a complete assortment of renovation and hardware items. The specialized stores are outlets that meet customer needs for hardware, seasonal products and paint.

Le Rénovateur, Home Centre, TOTEM, Cashway, Lansing, Chester Dawe

Commercial and professional 40 stores

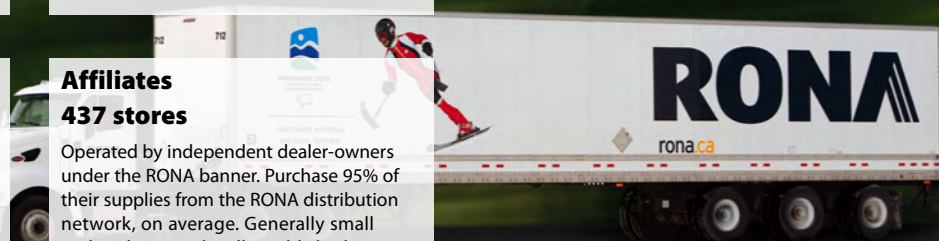
Designed to meet the needs of Commercial and professional customers, these stores or branches offer a wide variety of specialized products in specific categories such as building materials and plumbing.

Matériaux Coupal, Curtis Lumber, Noble Trade, Dick's Lumber

Affiliates 437 stores

Operated by independent dealer-owners under the RONA banner. Purchase 95% of their supplies from the RONA distribution network, on average. Generally small and mid-size and well established in their communities.

Le Rénovateur, Home Centre, Le Quincaillier, L'Express, L'Express matériaux, Hardware, Building Centre, Botanix



Network banners

RONA operates its network of stores under multiple banners responding to the different housing needs of Canadian consumers.



Building Centre
Cashway
Hardware
Home & Garden
Home Centre
Lansing
L'entrepôt
Le Quincaillier
Le Régional
Le Rénovateur
L'Express
L'Express matériaux



NOBLE TRADE, A WHOLESALE COMPANY OF RONA INC.



Distribution Centres

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

	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.	477,000 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.	1,540,000 sq. ft.



An ever-expanding Canada-wide network

Number of stores							
Western Canada		Ontario		Quebec		Atlantic	
2002	2008	2002	2008	2002	2008	2002	2008
39	124	114	180	361	365	13	25
+ 85		+ 66		+ 4		+ 12	

Number of stores added since 2002
167

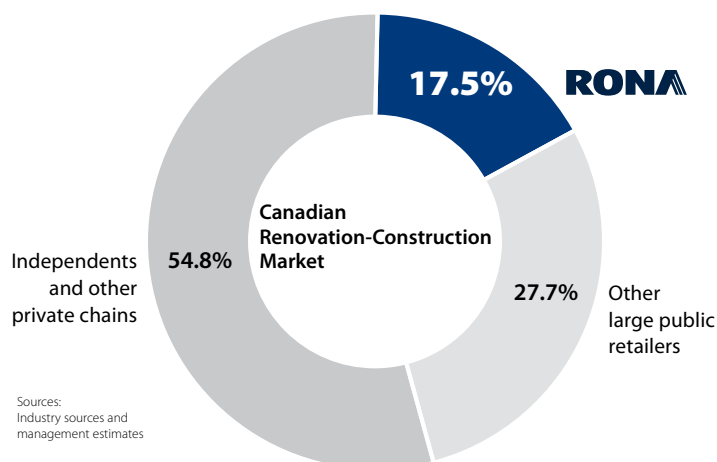
Sales by region							
Western Canada		Ontario		Quebec		Atlantic	
2002	2008	2002	2008	2002	2008	2002	2008
\$606M	\$1,397M	\$630M	\$1,208M	\$1,048M	\$2,171M	\$9M	\$115M
Compound annual growth rate: 14.9%		Compound annual growth rate: 11.5%		Compound annual growth rate: 12.9%		Compound annual growth rate: 52.9%	

Sales growth since 2002
\$2,598M

Number of employees by province								
BC	AB	SK	MB	ON	QC	NB	NS	NL
3,100	3,300	450	750	6,600	14,500	150	100	350

29,300
employees

RONA's market share in Canada since 2003 (%)						
14.0	14.8	15.0	16.4	17.0	17.5	
2003	2004	2005	2006	2007	2008	





A unique business model

694
points of sale
from the Atlantic
to the Pacific

RONA

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. The Company operates a network of 694 corporate, franchised and affiliated stores of various sizes and formats under multiple banners, as well as a network of nine distribution centres from coast to coast. The various sales outlets are adapted to a diverse clientele, from retail consumers to professionals and commercial businesses. With more than 15 million square feet of retail space, the RONA store network generates over \$6.3 billion in annual retail sales.

Bernard Haeck, Store manager, RONA Pierrefonds, Quebec

RONA: retailer and distributor

Retailer		Distributor	
Consumer	Commercial and professional	Corporate and franchised stores	Affiliate stores
Three different types of stores (big-box, proximity and specialized) and three types of ownership (corporate, franchise and affiliate) are used to offer consumers a wide selection of products and services adapted to their needs. These retail activities account for nearly 90% of RONA's retail sales.	To serve its commercial and professional customers, RONA relies on 40 corporate points of sale that offer targeted product lines, as well as its specialized sales force. These activities represent over 10% of RONA's retail sales.	RONA's 257 corporate and franchised stores are supplied by the RONA distribution network and account for more than 50% of the distribution sector's sales. Stores are supplied by the RONA distribution centres, by its specialized transshipment centre or directly by the suppliers.	The 437 affiliate RONA stores are 95% supplied by the RONA distribution network, on average. These activities represent nearly 50% of the distribution sector's sales. The flexibility of RONA's distribution network enables the consistent supply of a wide range of products to every store format.

One of RONA's greatest strengths lies in its unique approach to consolidation of the Canadian renovation-construction industry. RONA relies on four areas of growth: comparable sales, recruitment of independent dealers, construction of new stores and acquisitions. Thanks to these four areas, RONA has become the industry leader in Canada.

growth vectors



Highlights

LAUNCH OF THE 2008-2011 STRATEGIC PLAN

- > In late February, RONA unveiled its 2008-2011 strategic plan, by which it aims to become the solution for all Canadian consumers' housing needs. The plan has two parts. The first part, based on optimizing the existing network of stores and distribution centres, is called the PEP program, and the second part consists in the acceleration of development initiatives.

Implementation of several environmental initiatives

- > Throughout the year, several environmental initiatives were implemented, including the launch of a new line of RONA ECO products, the introduction of eco-responsible products, the implementation of a used paint recovery program in Ontario, the announcement of a policy on the sale of pesticides in stores and a policy on the procurement of forest products.

ENCOURAGING RESULTS FROM THE PEP PROGRAM

(productivity, efficiency, profitability)

- > The PEP program aims at optimizing the network of stores and distribution centres. The four main initiatives are to improve the profitability of the corporate store network, optimize the supply chain, accelerate recruitment, and improve sales and customer loyalty. One year after its launch, the PEP program's main results are very encouraging. The adjusted gross profit margin excluding unusual items improved by 89 points, comparable inventories decreased by \$118 million, logistics costs were reduced by \$6 million and private brand products sales increased by 10%.

Continued expansion of the network

- > During the fiscal year, RONA opened six new stores: two big-box stores and four proximity stores in different regions of Canada. In 2008, eight stores under the Réno-Dépôt banner were renovated and posted strong increase in results in the months following the completion of the work. And, finally, 31 new independent dealers were recruited (representing annual retail sales of \$132 million) and 164 expansion projects were completed by our existing affiliated dealers (representing investments worth \$34 million).

Changes to the organizational structure

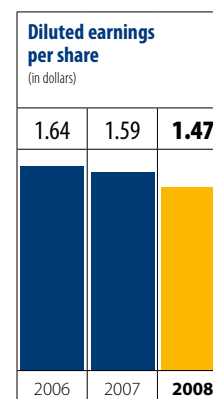
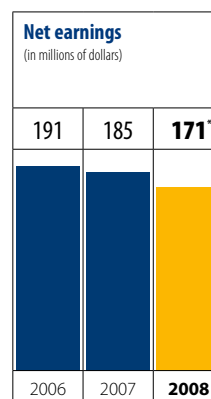
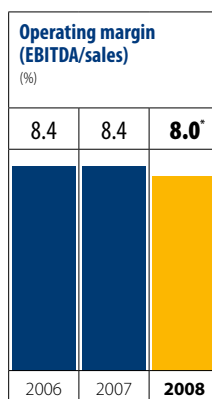
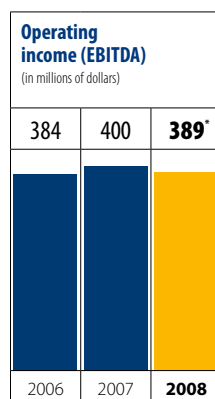
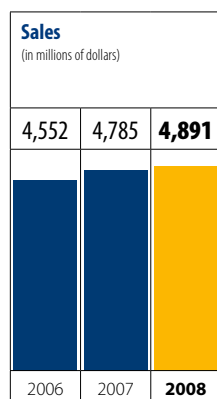
- > In aiming at renewing corporate vitality and providing a solid platform from which to implement its 2008-2011 strategic plan, RONA has made changes to its organizational structure over the last few months. The operations of the big-box, proximity and specialized stores have been grouped under a single service unit. RONA's marketing activities were consolidated and broadened and are now more focused on innovation and the customer experience. Furthermore, a new vice-presidency was created for supply chain management, and independent dealer recruitment and support are now directly overseen by the President and Chief Executive Officer.

Financial highlights

Years ended December 28, 2008, December 30, 2007 and December 31, 2006
(in thousands of dollars, except data relating to earnings per share, diluted earnings per share, number of shares and ratios)

	2008	2007	2006*
Results of operations			
Sales	4,891,122	4,785,106	4,551,936
Percentage increase	2.2%	5.1%	13.1%
Operating income (EBITDA) excluding unusual items	389,323	400,207	383,882
Operating income (EBITDA)	377,101	400,207	383,882
Operating income margin (EBITDA/Sales) excluding unusual items	8.0%	8.4%	8.4%
Operating income margin (EBITDA/Sales)	7.7%	8.4%	8.4%
Net earnings excluding unusual items	171,242	185,089	190,584
Net earnings	160,199	185,089	190,584
Diluted earnings per share excluding unusual items	\$1.47	\$1.59	\$1.64
Diluted earnings per share	\$1.37	\$1.59	\$1.64
Cash flows from operating activities	350,302	276,809	283,437
Investments			
Business acquisitions	4,824	228,502	168,872
Fixed assets	196,145	233,662	232,173
Fixed assets as percentage of sales	4.0%	4.9%	5.1%
Capital structure			
Total assets	2,506,173	2,482,446	2,108,382
Shareholders' equity	1,492,515	1,325,206	1,134,366
Long-term debt	494,171	636,776	484,821
Net indebtedness (long-term debt plus bank loans minus cash)	490,294	653,484	447,556
Net indebtedness/Total capital	24.7%	33.0%	28.3%
Net indebtedness/Operating income	1.3x	1.6x	1.2x
Supplemental information			
Shares outstanding	115,819,699	115,412,766	114,935,569
Stock price-closing	\$11.29	\$17.18	\$21.00
Market capitalization	1,307,604	1,982,791	2,413,647
Enterprise value	1,797,898	2,636,275	2,861,203
Enterprise value/Operating income ratio	4.8x	6.6x	7.5x
Price/Earnings Ratio	8.2x	10.8x	12.8x
Price/Cash flows Ratio	3.7x	7.2x	8.5x
Credit Rating (as at February 19, 2009)			
DBRS: BBB (stable outlook)			
Standard & Poor's: BBB- (negative outlook)			

*Fiscal 2006 had 53 weeks versus 52 weeks in 2007 and 2008.



*The 2008 data are excluding unusual items accounted for during the fiscal year.

Getting ready for the recovery

At RONA, we took the right measures in 2008. On one hand, we took steps to minimize the negative impact of the recession and even to turn it to our advantage. At the same time, we focused even more closely on making sure we're ready when the economy starts to recover: we worked hard to become an even better retailer, more solid financially and more efficient.

In the early months of 2008 we had already begun to anticipate the economic situation that unfolded as the year progressed. We took immediate action to protect the major assets acquired in our last growth phase and to strengthen our balance sheet. We also developed strategies to make the most of the recovery that will inevitably follow the current economic slowdown.

Taking the pulse of the economic situation

The economic conditions became more challenging in 2008. Against a background of turbulence on world financial markets, a recession unfolded in most industrialized countries – on the heels of warning signs that began more than a year ago for retailers in North America and Europe. RONA did not escape unscathed.

The recession is now officially acknowledged by the monetary authorities in Canada and the United States, so we can only expect that 2009 will again be very challenging for our sector, perhaps more challenging than 2008.

But even though it is clear that the Canadian economy is going through a difficult period, it's important to avoid identifying too closely with the situation in the United States, especially in terms of the real estate and mortgage markets. Yes, the Canadian recession may be severe. And it will be felt all the more sharply since it is our first recession in 18 years. For an entire generation of business people and managers, it is the first recession they have ever faced.

Even though it is difficult, the economy is much better here than in the US. Over the last few years, the Canadian banking system has been far more conservative than its American and European counterparts. Consumer

behaviour was also more prudent: household indebtedness in comparison to available income is currently far higher in the United States than in Canada, even though the ratios were more or less the same a decade ago. On the residential real estate market, the price correction has been far less pronounced in Canada.

That said, the changing economy underscores the importance of our 2008-2011 Strategic Plan announced in February 2008, as well as each of its two phases: PEP (productivity, efficiency and profitability) and Recovery.

PEP program

The PEP program was implemented at the very beginning of 2008 and includes a series of practical measures to quickly improve our operations: optimizing the supply chain, increasing the profitability in our corporate stores, speeding up recruitment of independent dealer-owners, improving customer loyalty and revitalizing sales in our store network. These measures also include investments in employee training and mobilization and ongoing improvements to our information systems.

In these pages you will see the kind of quality results the PEP program generated in just a few short months.

Because it takes the edge off the impact of the pressure that has been weighing down the entire home renovation-construction market in recent months, the PEP program is the perfect solution for today's economic climate. But the program was not entirely motivated by the economy: even without the economic upheaval, the time had come for us to consolidate our assets and tighten up our operations after nearly a decade of accelerated growth.

And indeed the economic climate will not determine our future. Our future is not simply dictated by the economy – we are actively building it. And consequently, while continuing to carry out the PEP program, we are already preparing for the next phase of the plan: Recovery. Even before the economy turns around, we may come across opportunities that will feed our future growth.



In 2008, the President and CEO, **Robert Dutton** (center), personally undertook the responsibility of recruitment and support of independent dealers, with whom he maintains solid business relationships. On the photo, from left to right, six RONA affiliate dealers: **Eric Bailey**, Matériaux Pont Masson in Valleyfield; **Éric Brisebois**, H. Dagenais & fils in Saint-Sauveur; **Roger Bibeau**, RONA Bibeau in Montérégie; **Carl Strulovitch**, Matériaux Probex in Roxboro; **Yves Morel**, Morel & fils in Saint-Lin-Laurentides and **Yves Lévesque**, J. O. Lévesque in Eastern Townships.

Four strategic imperatives

In view of the recovery, and as taken into consideration for the PEP program, our actions are directed by four strategic imperatives:

- First, to be the destination of choice for the complete housing needs of all Canadians.
- Second, with this in mind, we must offer the best service and best shopping experience in the industry for retail, professional and commercial customers.
- Third, we must become and remain the most efficient and innovative player in our industry.
- And finally, we intend to be our industry's sustainable development leader.

Recovery tools

For the second phase of our plan – Recovery – we will continue to rely on our four vectors of growth to achieve our objectives: comparable sales, recruitment of independent dealer-owners, new store construction and acquisitions. We will, however, be using very specific recovery tools to work through these four vectors.

The first of these tools relates to **our relationship with our customers**. We plan to implement a number of strategies to increase customer loyalty as well as RONA's awareness and reputation – three factors that are already in good shape but that could always be improved.

Our stores are our “product.” They are the core of the customer experience at RONA. For a number of years we've been at the leading edge in trends for store design. We were the

first in our industry to design the kind of store that is increasingly taking over from the big-box concept: stores of more manageable dimensions where service is more important than size and a vast selection of products is offered at competitive prices. We have literally reinvented the “traditional” store so that the only traditional aspect is its size.

Beside store concept, why do consumers have a lasting preference for RONA over our competitors? Because we give them exclusive products and, better yet, the services and expertise they need.

It's why we're continuing to develop our private brand, in terms of both its scope – close to 2,800 products so far – and its ever-increasing proportion of our sales. At RONA, our customers can find a growing number of completely exclusive products, and even whole concepts that they cannot get anywhere else, like our all-inclusive RONA by Design renovation packages that make it easy for consumers to do projects that reflect the latest trends in room décor.

Likewise, our stores offer innovative services to complement these products – from Project Guide to installation services.

Customer service is an essential part of our offer and differentiation platform, which explains the critical place of personnel training in our plan. We're stepping up training efforts for network employees and skills management for managers and professionals. To attract and mobilize the best employees, we've improved a number of our existing programs and launched new initiatives.

A long time concern for us, our sustainable development strategy has also become an effective growth and differentiation tool. And we have every reason to pursue our goal of becoming industry leader in this area.

In the very first year our sustainable development strategy was implemented, the depth of our approach and the impact of our actions earned us the recognition of a number of environmental stakeholders, including several ecological protection organizations.

We are the only ones in our industry to have embraced the rigorous life cycle approach for our products. We also developed and adopted a supply policy for wood products that some experts believe is the most stringent in North America. We already offer some 500 environmentally friendly products and a new line of private brand RONA ECO products. Research into environmentally friendly products is a significant trend that transcends the ups and downs of the economy. Our efforts are also clearly helping us carve out a sustainable competitive advantage.

We have unique, trend-setting stores, an unparalleled selection of products, service that satisfies increasingly demanding consumer needs, and the best array of environmentally friendly products – but all this can only attract customers if we get the message out. The best service and product offerings also require the best merchandising efforts.

To do this, our promotional support uses a number of platforms. We're investing significant sums to develop and deliver distinctive advertising campaigns. Our partnership with the Canadian Olympic movement is having a measurable effect on our awareness and empathy capital in every region of the country. In just five years, this intangible yet essential asset has grown exponentially.

Developing the professional and commercial market is the second tool in our recovery phase. While home renovation and construction represent a retail market worth about \$36 billion, the professional and commercial market tops out at close to \$70 billion per year. We've built up a solid footprint for RONA here with a selection of judicious acquisitions over the past few years. We will continue to systematically develop this still-fragmented market, first by consolidating our leadership regionally in certain target sectors (for example, plumbing), and then by extending that leadership across the country. We will also rely on our extensive network to reach professionals, the trade and contractors. We will achieve our growth objectives both organically and through acquisitions.

Finally, consolidating the Canadian market by **recruiting independent dealer-owners** is another very promising recovery tool. Close to 55% of the Canadian renovation-construction market is still held by either local or regional chains or independent dealer-owners. A full 70% of these stores have no succession plan. There is enormous development potential to be gained by integrating the best of them into our store network through recruitment. The current economic climate is giving independent and regional dealer-owners yet another reason to join a group with RONA's solid financial foundation and know-how. To show just how important a focus this will be in 2009, I am making it a personal priority and will directly supervise all recruitment activities.

Supporting a network of affiliates – from supply to merchandising – was RONA's first calling, and affiliates are still a preferred vector of growth. So we will not only be stepping up recruitment efforts but also speeding up the integration of new affiliate dealer-owners in our network. We will continue to support our affiliates in their expansion efforts as well: they invested \$225 million on expansion projects over the last five years alone.

Likewise, we will seize favourable opportunities to acquire good quality regional chains. We firmly believe that the current economic climate will create new opportunities in this regard. In the last few months, we have made a number of changes in our senior management in order to refocus our actions on both the PEP and Recovery phases of our 2008-2011 strategic plan.

Turning turbulence to our advantage

Turbulent economic times present challenges to all businesses. But some businesses know how to take advantage of tough situations: these are generally businesses that benefited from strict strategic and financial discipline before the beginning of the decline.

RONA has been exercising this kind of discipline for a number of years now. Investments in our internal growth and productivity are entirely financed by operational cash flow, which leaves our credit lines available for acquisition opportunities. And we have access to credit facilities under very good conditions.

So we're currently dealing with these turbulent times with a number of aces up our sleeve. First of all, we have a strong, experienced management team that is used to working together and has an intimate understanding of our markets. Second, we have a very solid balance sheet and pre-established credit facilities, so we have the financial flexibility to seize the opportunities that inevitably arise during economic downturns.

In short, we can be certain that the current economic climate will present numerous interesting opportunities. We are already implementing a plan that is well suited to this climate, one we developed several months ago. We have a strong team, and we have a solid balance sheet.

Everything is in place to make the most of the recovery

None of this would have been possible, of course, without the talent and dedication of the more than 29,000 people who work at RONA and in our store network. More than ever, their energy and creativity were put to the test by a very challenging 2008. On behalf of the board of directors and the management team, I want to thank them all.

I also want to thank the members of the board of directors for their efforts. In terms of the quality of their advice and their high standards, their contributions have been critical to our success and sustainability.

Finally, I want to express my appreciation for the enormous efforts of my colleagues on the management team. Year after year, these men and women raise the bar in terms of management standards, something they did once again in 2008.



Robert Dutton
President and CEO

NEW PLAN CONSOLIDATES SUCCESS

RONA's new four-year plan emphasizes network efficiency and prepares for the next accelerated development phase

Strategic Plan 2008-2011

1

THE PEP PROGRAM:

- Productivity
- Efficiency
- Profitability

2

ACCELERATED DEVELOPMENT:

- Building on the enhanced capabilities of our four growth vectors



Éric Scazzosi, RONA Pierrefonds, Quebec

Since 2000, a rapid expansion program has added close to 200 stores, increased sales four-fold, more than doubled RONA's share of market and seen employees climb from 11,000 to 29,000. When the next strategic plan became due at the end of 2007, a focus on consolidation and network efficiency was the departure point.

The economic downturn also supported a priority on maximizing productivity. However, management remained mindful that adverse conditions also create opportunities for those with sound financial and organizational structures. The new four-year plan was accordingly developed in two, overlapping phases.

PHASE 1 Phase one, the PEP program (profitability, efficiency, productivity) drills down on getting the maximum performance from the network and its infrastructure during a period of economic slowdown, expected to last about two years.	PHASE 2 Phase two, anticipated in 2010, recalibrates the enterprise onto growth and expansion. It will maximize the advantages of the Company's four distinct growth vectors with initiatives to benefit from resurgent consumer confidence and activity.
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"Our immediate need was to consolidate our recent acquisitions and optimize the network in order to mitigate the negative effects of the market," says Claude Guévin, Executive Vice President and Chief Financial Officer. "We also wanted to maintain a very disciplined balance sheet management during that period and prepare the Company for its next development phase once conditions improve."

Strategic plan phase one

There are four major projects in this initial phase.

1. Improve the profitability of the corporate store network.

Gross margin. Improve the retail sector's gross profit margin by better category management, improved purchasing conditions with suppliers, coupled with increased emphasis on sales of private label products and reduced shrinkage.

Network optimization. Two initiatives have been identified for improving the network. These are a turnaround plan for under-performing stores and a reduction in the costs of constructing new stores.

Training. More employee training is specified in the plan, including the pollination of best practices across all banners.

Technology. Targets include upgraded Financial and Human Resources platforms as well as improved demand planning.

Integration of acquisitions. RONA is a skilled integrator: acquisitions contributed half the sales growth from 2000 to 2007. The new plan seeks further improvement in the speed of conversion to its own systems, services and suppliers.

New strategic imperatives

The 2008-2011 strategic plan flows out of four strategic imperatives:

1. To be the destination of choice for the complete housing needs of all Canadians.
2. To offer the best service and shopping experience in the industry for retail, commercial and professional customers.
3. To be the most efficient and innovative player in the industry.
4. To be the industry leader in sustainable development.

2. Optimize the Supply Chain

Optimization requires scrutiny of thousands of processes and decisions – and the discipline and imagination to improve them. To achieve world-class supply chain efficiency, the new strategic plan looks at these components:

Demand planning. Supply chain efficiency depends to a great extent upon integrating accurate sales activity forecasts into merchandizing planning and inventory management. RONA created a formal demand planning service in 2007 and hired a team of specialists in 2008.

Inventories. Reduce inventory levels on a comparable basis and improve inventory turns (which improve profitability by reducing the cost of holding inventory).

Imports. Imports from China are forecast to double by 2011. An in-depth review of sourcing and distribution methodology is being undertaken.

Logistics. The process of receiving, storing and distributing the 90,000 products sold by RONA is hugely complex and demands the most detailed management. Big cost savings are expected from in-depth reviews of transportation services and routes, distribution channels used by suppliers, efficient warehousing and optimization of the Company's nine different distribution centres across the country.

3. Accelerate the recruitment of independent dealers

Recruiting independent dealers has been a business fundamental since the foundation of the Company in 1939.

The 2008-2011 strategic plan identifies three goals for enhancing the contribution of independent stores.

Accelerate recruitment. Efforts are in place to intensify and increase the annual rate of recruitment. Adverse market conditions historically create opportunities among independents with limited resources and RONA is able to provide sound inducements and a path to increased profitability for owners.

Speed conversion. Specific measures will be taken to switch new affiliates more rapidly into the RONA distribution system, thus maximizing the new revenue flows.

Support expansion. The strengthened business resulting from the RONA association prompts many affiliates to expand their own capabilities and seek domination in local markets. The Company provides important resources in support of this and will increase these under the new plan.

4. Improve sales development and customer loyalty to the RONA network

RONA has enjoyed great success in aligning its marketing and merchandizing strategies to make RONA the destination of choice for its target markets. Specific initiatives to increase sales and loyalty include:

- Expand RONA brand products from 16% of hard-line sales at the start of 2008 to 20% by 2011.
- Introduce new line of eco-responsible products including private label RONA ECO.
- Launch 15 new renovation packages a year for RONA by Design.
- Implement Project Guide assisted service.
- Build installation services to 4% of retail sector sales in 2011 from 1.5% in 2007.

- Increase sales to AIR MILES® cardholders from 51% of sales to 60% by 2011.
- Increase sales with RONA credit card from 1.4% of sales to 4% by 2011.
- Enhance web-based commercial capability with a major site upgrade.
- Build monthly visits to www.rona.ca from 1 million to 2 million by 2011.

Strategic plan phase two

In 2010, the first phase of the plan will overlap with Phase Two as the anticipated recovery in the retail market also takes hold. While the work on profitability and efficiency continues, the Company will move into expansion mode.

The Company's successful business model includes dimensions that are unique in the industry. One is a multi-pronged approach to growth

that integrates tightly focused sales activity in four areas: comparable sales, recruitment of dealers, new construction, and acquisition.

In Phase Two, the Company will re-allocate resources and strategic emphasis in an all-out effort to accelerate development in each of these sectors.

Financial objectives

The 2008-2011 strategic plan identifies specific financial objectives for the Company.

1. Remain the industry leader in Canada with a market share of over 20% and special emphasis on Western Canada and Ontario.
2. To post low-single-digit annual earnings per share on average during the first half of the plan and double-digit earnings in the following years⁽¹⁾.
3. Optimize our return on invested capital.
4. Maintain an investment grade credit rating.

For progress against these financial objectives in 2008, please refer to the MD&A starting on page 33.

⁽¹⁾ In its 2008 *Management Discussion and Analysis* (MD&A), the Company stated that the expected decline in the economic environment will prevent it from achieving its low single-digit-growth objective for earnings per share on average in the first half of the 2008-2011 strategic plan.

PEP Component	2008 Achievements
Improve profitability of the corporate store network	• Improved adjusted gross margin, excluding unusual items, by 89 basis points • Improved profitability among underperforming stores • Closed four non-profitable stores • Sold non-core assets • Improved new store launch process and reduced construction costs • Increased employee training and motivation • Improved integration process for new acquisitions
Optimize the supply chain	• Reduced comparable inventories by 14% or \$118M • Reduced logistics costs by \$6M • Implemented dedicated Demand Planning team
Accelerate recruitment of dealers	• Recruited 31 new dealers with annual retail sales value of \$132M • Assisted 164 new expansion projects by dealers worth \$34M
Improve sales development and customer loyalty	• Increased sales of private label products by 10% to reach a penetration rate of 17% • Launched new RONA ECO line • Introduced 500 new eco-responsible products • Launched 9 new project categories in the 3 different trends of RONA by Design for a total of 27 innovative renovation packages • Implemented new Project Guide • Increased Installation service sales by 20% • Increased sales to AIR MILES® cardholders by 10% • Increased number of RONA credit card holders by 14% and increased financed sales by 12% • Increased monthly visits to www.rona.ca by 20%

Big steps forward in sales development, customer loyalty and efficiency

PEP program produces major improvements to the network



Philippe Bovy, RONA Pierrefonds, Quebec

The RONA banner is present on almost 700 stores across Canada representing more than 15 million square feet of retail space. Of these, the corporate and franchise retail network is made up of 77 big-box stores and 140 proximity and specialized stores.

This network of stores was the focus of most activity in the PEP program – the first phase of the new, two-part strategic plan.

Innovative products and services

Innovative customer products and services resulted in increases in loyalty and average transaction value. Although same-store sales declined 4.0% over 2007, the average transaction was marginally higher. This was triggered by increased sales of the more profitable RONA brand products and proprietary services such as RONA by Design and Project Guide. Strong emphasis was also put throughout the year on increasing sales to customers using AIR MILES® cards and growing the number of RONA Desjardins credit cards.

Sales of RONA brand products rose 10% and now represent 17% of hard-line sales, on target for 20% in 2011. Among 300 new private label products introduced in 2009 is an upgraded line of power tools, the Haussmann controlled label. The increase in private brand sales is aided by the popularity of the RONA by Design, which includes a number of RONA brand products, and the Project Guide service.

Sales to customers using AIR MILES® cards increased by 10% since the beginning of 2008, now representing 54% of sales compared to 51% in the previous year. Over 14% growth was also achieved in new RONA Desjardins credit cards issued and more than 12% growth in financing volume since the beginning of 2008.

Sales of RONA by Design comfortably out-paced the previous year. Launched in early 2007, the program offers turnkey renovation concepts such as patios and kitchens, in three professionally designed style families, or trends – Oasis, Spirit, Global Village. A noted color and trend consultant works in close relationship with the RONA marketing team researching most recent design trends applicable to renovation projects. These are then used to establish the key styles for the RONA by Design program in the upcoming year.

Through RONA by Design, customers are offered a visually integrated package of quality products reflecting the look of their choice. Customer enthusiasm for these stylish projects has been strong and by the end of 2008, nine new project categories were offered in each trend, a total of 27 packages. In 2009, 10 more categories will be added in each for a total of 30 different packages.

"Trends we identify and select for RONA by Design extend to our overall selection of products," says Normand Dumont, Executive Vice President of Merchandizing. "At the Spring Show this year, one could notice how the RONA by Design trends translated into our array of 2009 products, across lines and categories."

Today, both members of many couples are working, allowing them to benefit from more income but causing them to have less time. From this reality has emerged the 'do-it-for-me' approach to home renovation. RONA has capitalized on this trend in the past by offering a wider range of installation services which grew in sales by 20% in 2008.



This year, the Project Guide service was rolled out across our stores. Customers who are undertaking a renovation project can benefit from the services of a specially-trained, knowledgeable employee who will help them select materials and provide expert advice for the realization of their project. The Project Guide remains available in an advisory capacity for the duration of the project. The service has been introduced in all 77 big-box stores and generated over \$25 million in sales the first year.

This year, RONA introduced products that represent an eco-responsible choice. They were rigorously selected based on the life cycle approach adopted by RONA. They include close to 500 various brand name items, selected because they lessen the environmental impacts of at least one phase of their life cycle – from acquisition to use and end of life – as well as products from the RONA ECO private label. Another 40 RONA ECO items will be added to the line in 2009.

In 2008, industry leading policies for the sale of pesticides and sourcing of lumber were introduced. Details on these products and policies are available in the *Sustainable development* section beginning on page 21.

Increasing awareness

In the past five years, RONA's awareness increased significantly across the country, especially in Ontario and Western Canada. Total unaided awareness went from 36% in 2003 to 63% in 2008 in Ontario and from 54% to 78% in Western Canada following the RONA network rapid expansion. In Quebec it remained very high going from 87% to 88% showing RONA's undisputable leadership position in that region.

The increase in awareness is also due to the Company's innovative Olympic sponsorship. Initially undertaken to accelerate building a national image of a proudly Canadian Company, it was also a fitting showcase to communicate RONA's commitment and position as one of the most socially-responsible and ethical retailers anywhere.

RONA is a National Partner of the Vancouver 2010 Olympic and Paralympic Games as well as a Partner of the Canadian Olympic and Paralympic teams through 2012.



RONA
NATIONAL PARTNER

During the Beijing 2008 Olympic Games, RONA presented a series of nine TV ads. During this campaign, RONA recorded the highest increase in aided recall pre versus post period of any Olympic sponsor, an improvement of close to 20%, from 48% to 57%.



HAUSSMANN

REVIEW OF OPERATIONS



Roland Rachid Ait Yahia (left) and **Martin Dagenais**, Réno-Dépôt, Marché Central, Montreal, Quebec

Tuning the network

At Réno-Dépôt, eight stores were extensively renovated in line with a new concept introduced in 2007 while a new store was launched – the 16th under the Réno-Dépôt banner. The banner's new marketing campaign has been met with success while employees are eagerly taking part in a new training and engagement program.

The Réno-Dépôt clientele includes an important number of contractors and trade professionals while inventory is made up of a wide selection of building materials with an emphasis on two of the banner's strengths, in-store availability and low price. Promotional innovations are addressing this and include a "13-to-the-dozen" policy which gives the buyer an extra unit when 12 items are purchased.

Réno-Dépôt marketing is now also geared towards women and casual home improvement customers, and recent renovations have greatly increased in-store appeal. The space is laid out around a wider central aisle, where popular products are displayed, while improved pictogram-based signage helps shoppers find products more easily than before. More space is allotted to the counter

reserved for construction and home renovation professionals while a Project Area was added at the centre of the store, providing a consulting area where consumers can meet with a Project Guide.

"We are very proud of the successful revitalization of our strong Réno-Dépôt banner in Quebec", explains Pierre Dandoy, Executive Vice President, Retail Operations. "The customer response has been above expectations resulting in strong sales performance".

In the RONA network, two other stores also underwent important renovations, one in Kamloops, the other one in Squamish, both in British Columbia. Efforts are also being made to standardize the store network and introduce innovations to realize the goal of being THE destination of choice for the complete housing needs of all Canadians. Concepts for specialized urban, paint and ecological stores are under study.

A multi-disciplinary team was formed to undertake a review of the corporate store network in order to improve overall profitability. This included an accelerated recovery plan for the stores with the most improvement potential, including merchandising, human resources management, shrinkage and inventory and more aggressive local marketing.

Most stores saw improved results from the program. After careful study, four unprofitable stores were closed and the business transferred to neighbouring stores. Two were big-box stores, one in Richmond, British Columbia and the other in Scarborough, Ontario. The other two were small proximity stores under the Cashway banner in Ontario. Employees have been relocated or offered jobs in the area. The decision allows the Company to eliminate operating losses and transfer business volume to stores in better locations with much better potential for growth.

Employee training

Despite the market slowdown, training was held at levels slightly higher than the previous year. This is in recognition of the huge importance of employees and employee service in the evolving retail environment.

RONA distinguishes itself by a well known and appreciated culture of service. Over the years this has continued to grow in importance as consumers become more knowledgeable, more demanding and are increasingly pressed for time.





Josée Gosselin, Boucherville distribution Centre, Quebec



Pierre Forget, Boucherville distribution Centre, Quebec

The maturity of the big-box and warehouse type of store with its emphasis on self-service has been met by a growing demand for more personal attention and access to specific expertise regarding a product or service. RONA has ramped up its training programs even further with sessions on the Project Guide service, RONA by Design, private brand products and financing services.

"We put a very high priority on employee training and engagement," says Christian Proulx, Senior Vice President, People and Culture. "Our service culture definitely differentiates us and represents a competitive advantage".

Better IT tools

Data flow has become the lifeblood of retail organizations and RONA is advanced in a multi-year plan to upgrade information technology across the enterprise. An integrated management financial system is being implemented and the new focus is on the supply chain and inventory replenishment. A superior system for demand planning will be implemented in 2009.

Maximizing productivity

Through superior demand planning and replenishment management, comparable inventory levels were reduced by 14% or \$118 million in 2008. The forecasting function now includes 10 dedicated specialists and upgraded software will be introduced in 2009.

Logistics savings of \$6 million arose from analysis of transportation needs and new tendering as well as taking over delivery of goods from some manufacturers or distributors – the result of a Channel of Distribution analysis.

The loss of inventory, or shrinkage, is an example of the level of detail needed in terms of cost control in order to become best performer in the retail industry. The reasons for shrinkage are many: products can get broken, stolen, or damaged.

Although RONA's shrinkage is below the retail industry average, many opportunities exist to continue to improve this metric, resulting in important savings for the Company.

This preventable cost was the subject of a comprehensive employee training and awareness program in 2008 resulting in a significant improvement both in the stores and the distribution centres.

Imports are another focus of process improved management. While strongly supporting Canadian manufacturers in areas where they are competitive, RONA also realizes important margin gains through imports. Globalization has radically accelerated the rate of intercontinental trade and the Company expects Asian imports, which grew 8% in 2008, to double by 2011.

Increasing imports, however, also carries its own set of challenges. These include quality control, timely delivery and market compatibility.



To date, RONA has relied primarily on its membership in the global purchasing consortium A.R.E.N.A. for its importation process but will initiate a proprietary process in 2009.

"Our distribution centres were overloaded by too many imports sitting in them for too long," explains Richard Brouillette, Vice President, Logistics. "We also need our purchasing in China to reflect a more intimate knowledge of the Canadian market and consumer tastes here."

As a result, RONA will open a direct office in Shanghai this spring. This will be supplemented with third-party warehousing facilities located near each of the five major manufacturing regions. Products will be staged at lower cost in China and imported on a just-in-time basis into Canada.

RONA stays in expansion mode with dealers

An industry-leading package attracts many dealers to hang a RONA banner on their store

The economic clouds that have been gathering have at least one silver lining for RONA. As business conditions become more difficult, a growing number of independent dealers see a solution in joining the RONA banner and becoming a part of a large, powerful and well-known enterprise.

For an independent dealer, joining RONA represents a chance to grow at a faster rate with access to a wide selection of products, best prices, innovative concepts and services as well as strong brand awareness. RONA offers independent dealers all the tools needed to perform and continue to consolidate their respective markets. In 2008, 31 more dealers opted to join the RONA banner, bringing over \$132 million in retail sales. In the past five years, since 2003, a total of 157 dealers have joined up, totaling \$743 million in annual retail sales.

Ever since its early days, RONA has always recognized the independent store owners as an important partner. The Company has always sought to deal with individuals and businesses who share its entrepreneurial spirit, its vision of success and the means of achieving it. RONA promotes the growth of its dealer-owners by sharing with them strategic information and expertise and also by proposing flexible means of association that respect the willingness and ability of each one to commit to the partnership.

RONA now fields two dedicated national teams, one to recruit and the other to support the growing network of affiliate dealers.

2009 RONA Spring Show in Toronto
in November 2008





Maria Tartaglia, Affiliate dealer support agent

Strong support for affiliates

"We have significantly added to the support function this year," says Robert Dutton, President and Chief Executive Officer. "Our dealers have three units working for them. They have a group of regional managers, whose job is to help dealers become or remain leaders in their markets. Then they have order specialists and a third group managing eRONA, the online tool we have created for them."

The order support group ensures that all dealer product orders are correctly managed in a timely manner. Every dealer receives a call from his or her support agent once a week informing them of their booking status.

The Regional Managers are dedicated to assisting the dealers to increase sales, operate more efficiently and take advantage of expansion opportunities. In 2008, affiliates undertook 164 expansion and improvement projects valued at \$34 million. Since 2003, such projects now total 849 at a value of close to \$250 million.

Just as the market slowdown creates opportunities for RONA, it also represents opportunities for independents to invest in expansion.

The Company encourages such growth and last fall held a seminar at which each dealer was given a list of nearby stores considered acquisition targets.

A case in point is the success of J.O. Lévesque, a chain of five RONA-affiliated stores in the Eastern Townships Region of Quebec. In 2008, the RONA support personnel worked with J.O. Lévesque to undertake a major expansion in its Cowansville store. The \$1.6 million investment almost doubled store size from



After conducting a major expansion project, the **RONA J.O. Lévesque** store in Cowansville, Quebec, celebrated its reopening with employees and customers.

"We planned this project for about a year with the help of our employees and RONA's support team. We applied best practices and created a unique ambiance in store. Our customers now have the inspiration of the latest RONA concepts combined with the personalized service they always received in our smaller store. Our traffic, sales and profits are all significantly higher since the official opening of our expanded store."

Yves Lévesque, independent dealer, owner of RONA J.O. Lévesque chain of stores

18,000 sq. ft. to 30,000 sq. ft., increased the lumber yard from 160,000 sq. ft. to 300,000 sq. ft. and added a greenhouse for garden products.

The expansion work deftly retains the store's original identity and strong association with building materials and fireplaces but introduces many elements of the successful interior concepts pioneered by RONA. These include new merchandising opportunities such as a décor boutique, strategically located close to the fireplace section, as well as a lighting boutique and a highly innovative building materials section.

"Independent dealers have also access to a solid human resource support," says Christian Proulx, Senior Vice President, People and Culture. "Our human resources package which

brings together selected components of our parent system is available on a custom basis and gives the independent access to a HR specialist whenever he needs it."

RONA's offering in tune with today's independent dealers needs

Although there may be no single reason for dealers to join RONA, recent sign-ups point to the contemporary relevance of the Company's products, merchandising and marketing. Bob Dale and his 28-year-old son Brad ended two years of research and verification when they joined RONA last October. Product range and orientation were high on the list of benefits.

REVIEW OF OPERATIONS

“RONA has a very contemporary product selection, especially when it comes to décor and renovations. My generation has developed its own brand loyalties and we came of age around the time RONA went national and rolled out very contemporary stores across the country. There is a definite identification with RONA for people of my age group.”

Brad Dale



Bob and Brad Dale, Otter Lake, Quebec

In summary, the advantages for dealers to join RONA are persuasive and include a strong distribution network, best buying conditions, a wide variety of national brand and private label products, strong brand awareness and marketing support at both national and local levels, highly innovative store concepts and services and development plans as well as succession planning. For independent dealers, RONA represents a flexible solution to combine their unique identity and entrepreneurship with a strong retailer and distributor aiming at consistently innovating and consolidating the Canadian renovation industry.

The showcase for RONA’s retail offerings is the annual Spring Show, which attracts many current and potential independent dealers from across Canada. Among products on display for 2009 were 2,400 RONA-brand products. A total of 30 new RONA by Design packages were also introduced, illustrating the Company’s strong commitment to innovation and clearly setting RONA apart from any other buying group in the country.

Dealer recruitment		
Fiscal Year End	New affiliates	Annual Retail Sales*
2003	11	\$55
2004	25	\$105
2005	31	\$191
2006	37	\$198
2007	22	\$62
2008	31	\$132
Total	157	\$743
* In millions of dollars		



“I didn’t have this quality of power tool in a private label before. These products are very, very good. The price point is right in the middle, the margins are superior. That’s good retailing.”

Yves Morel, Saint-Lin-Laurentides, Quebec

Expansion and renovation projects		
Fiscal Year End	Projects	Value*
2003	90	\$21
2004	105	\$23
2005	144	\$48
2006	166	\$69
2007	180	\$53
2008	164	\$34
Total	849	\$248
* In millions of dollars		

“The independents in our network bring us back to our roots. It is one of our core strategies. I have always believed in the power of the independent dealers and I am convinced we offer them the best development program in our industry.”

Robert Dutton

In 2009, the dealer recruitment and support will revert under the direct responsibility of Robert Dutton, President and CEO. Affiliates have assumed an important place in Dutton's plans from the beginning and he relishes the opportunity to get back into the field and help dealers maximize their opportunities.

With tough market conditions continuing through 2009, dealer signing and expansion projects initiated by dealers are expected to again set records.

Top 10 reasons why independent dealers have decided to join RONA	
1	Strong development programs for dealers: business plan, succession plan and flexible options
2	Strong brand awareness across the country and deep involvement in the communities
3	Innovative concepts, products and services: new proximity store concept, eco-responsible products and the RONA ECO line, RONA by Design and other value added services
4	Comprehensive private label program representing 17% of hardware sales
5	Largest loyalty program in our industry: AIR MILES®
6	More than \$150 million invested in marketing in 2008
7	The strongest support team in the country: banner committees, regional managers, dedicated order desk and eRONA
8	Strongest Canadian purchasing power in building materials
9	Guaranteed best price
10	Strong set of values: service, unity, respect, search of common good and sense of responsibility

Dealers recruited believe RONA is the best organization to help them grow.



“We’ve chosen RONA as the banner that can best help us to develop our retail presence here. They’ve got the brand, they know how to help us drive traffic.”
Lorne Feldman, Timmins, Ontario



“Why did we join RONA? Buying power, for one. It’s an overused term but it’s critical. Also, the availability of their warehouses and the style of their marketing.”
Jeremy Truax, Kingsville, Ontario



“I’m very impressed with RONA’s ability to communicate who they are and what they stand for. It will certainly help us.”
Dan Schapansky, Clearwater, British Columbia

Expanding the store network across Canada

While market conditions slow down new construction, RONA puts its efforts into developing innovative concepts, reducing construction costs and improving its launch process

Six new stores were opened in 2008, adding 421,000 square feet to the retail network. Two are big-box stores – a RONA store in Halifax and a Réno-Dépôt in Candiac, Quebec. The four new proximity stores are located in Thetford Mines, Quebec, Carleton Place and Grimsby in Ontario and Kamloops, British Columbia.

New store construction and major renovation remain one of the four growth vectors of the Company. RONA is well positioned both with a bank of excellent locations and store concepts that delivers high customer appeal. The Company developed innovative store concepts of different formats which have the flexibility to rapidly adapt to changing needs in the environment.

However, current economic conditions and the Company's priorities call for a temporary reduction in the pace of new store openings. The Company nevertheless continues to search for the best possible locations across the country for its future development. In the last few years, RONA increased its land bank and developed strong awareness amongst real estate developers in the country.

The focus under the new strategic plan is on lowering the costs of construction, improving the store launch process and further refining the store concept itself.

Structured support for a new store launch has been doubled from 90 days to 180 to accommodate a detailed pre- and post-launch program. Pre-launch initiatives are tailored to the store and its market. A fixture will consist of making contact with all contractors and trade professionals in the area to communicate the benefits of the store pro services as well as access to the Company's Commercial and Professional Market division expertise.



RONA
Carleton Place,
Ontario, opened
in March 2008



RONA
Thetford Mines,
Quebec, opened
in March 2008



RONA Halifax, Nova Scotia, opened in April 2008



RONA Grimsby, Ontario, opened in July 2008



Réno-Dépôt Candiac, Quebec, opened in March 2008



RONA Kamloops, British Columbia, opened in August 2008

Training and employee support have been upgraded and extended. Budgets for local advertising and promotional support are substantially increased and the community relations plan for each opening overhauled.

Despite the improved process and accelerated sales, openings of new stores in 2009 have been limited to three, taking into account the deterioration expected in economic conditions. These three are the expansion of a Réno-Dépôt big-box in Lasalle, Quebec; the opening of a new proximity store in Strathmore, Alberta under the TOTEM banner; and the reconstruction and relocation of a RONA store after a fire in St-Georges-de-Beauce, Quebec. The Lasalle project includes many LEED initiatives (Leadership in Energy and Environmental Design). It is planned that the St-Georges-de-Beauce and Strathmore stores will obtain LEED certification. Four other stores under construction will open at the beginning of 2010. Three of these stores are located in Ontario and one in Alberta.

As is the case with acquisitions, priorities on the use of capital are oriented towards efficiency improvements until market conditions improve and the return on investment comes back to normal levels.

The reduced activity, however, allows time for the Company to refine still further the ideal retail store concept. RONA is a leader in identifying superior combinations of size, service, product availability and ambiance. The proximity store, with its boutique approach to product grouping is driving a new, higher level approach to home renovations.

"You might say we are still looking for the store of the future," says Claude Bernier, one of the creators of the proximity concept whose responsibilities in 2009 now include the development of customer innovations. "RONA has never been a me-too organization and one of my goals is to further develop our culture of innovation which has been at the heart of our

strategy since our early days. That effort has to include the store concepts of the future."

This will include a pilot project to integrate the best practices of successful existing concepts. The proximity store concept at around 52,000 square feet has become a favorite, proving capable of offering the required product choice in attractive surroundings and a smaller footprint. This makes possible locations more convenient to homeowners and with high levels of specialty service. However, RONA is also keen to see a breakthrough in big-box store concepts that could drive a revival for this format.

Acquisition potential seen in retail and commercial

Company lowers priority on growth by acquisition but still seeks to expand its commercial presence in 2009

Acquisitions have been a significant part of the Company's growth since 2000. In the last eight years, they have generated over \$2.6 billion in sales and accounted for close to 50% of the Company's retail sales growth.

TWO KEY COMPONENTS OF THE ACQUISITION STRATEGY ACCOUNT LARGELY FOR THE SUCCESS.

- **Strict financial and strategic criteria are applied in every instance. The target must not only contribute additional sales but represent a strategic advance in terms of fit and future orientation. The financial terms must be within strict parameters determined by return.**
- **Integration is rapid and efficient. Information technology systems are standardized, purchasing and distribution harmonized, and the task of sharing RONA's distinct culture of service initiated.**

After a run of seven significant acquisitions in the past three years, 2008 saw only one – the acquisition of Best-MAR in the first quarter. Best-MAR is a leading Ontario plumbing company with branches in Ottawa, Cornwall and Brockville and adds depth to the new Commercial and Professional Market division of the Company.

In the light of reduced activity, the focus in 2009 will be on efforts to further improve the integration process. These include an in-depth review of best business practices derived from the Company's 12 major acquisitions over the past eight years.

"In 2009, the acquisition activity will remain slow because of the business conditions but also because we have decided to be patient and opportunistic in this environment," comments Claude Guévin, Executive Vice President and Chief Financial Officer. "There are definitely good companies out there but many are still pricing on yesterday's valuations and there is bound to be adjustments as these adverse conditions continue. And given the very tight credit situation, we are going to be looking very carefully before we access our capital and credit facilities."

RONA, in fact, is in excellent financial shape and well positioned to respond to the right opportunities. It has a strong balance sheet and further bolstered cash resources by extending its credit facilities another \$150 million last summer.

Expectations for acquisitions in 2009 targets small regional chains that can close up gaps in the national footprint and the principal focus will be on building the Commercial and Professional Market division.

"We've done a lot of infrastructure work and now we're ready to grow. We want to extend our leadership in plumbing geographically and we also want to get a foothold in HVAC which is a natural add-on", says Michael Storfer, former owner of Noble Trade and RONA's Vice President, Commercial and Professional Market.

HVAC – heating, ventilating and air-conditioning – is seen as a companion service to plumbing, particularly in the construction and renovation of large commercial and residential buildings. While diversifying into other segments, RONA wants to keep its focus in the renovation industry.

Property management sales have been a part of RONA since 2006 serviced by a sales force feeding into the Pro Desks of the retail stores. The Company sees an opportunity to leverage these resources in association with Noble Trade.

"The commercial market differs from retail in some very important ways," says Storfer, "but the RONA retail network and the existing pro services represent a tremendous complementary asset. One of the ways this can be utilized is to service large national property managers by providing local services on a one-bill basis."

Building maintenance involves a broader product supply range and a new Noble Trade Distribution Centre in April will dedicate 20% of its space to commercial supplies.

In contrast to retail operations, the Commercial and Professional Market division posted strong organic growth in 2008. Additional sales staff will be added this year to pursue the development of this division.

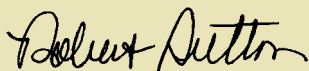
Sustainable development

A RONA business imperative

Sustainable development has become a significant concern that is rallying local communities and international players alike, whose expectations in this area have been growing continually over the years. At RONA, sustainable development is firmly rooted in our history. It is part of our identity and guides our way of doing things.

Given our awareness of a real need to contribute toward the welfare of our communities and the environment, we have maintained RONA's commitment to sustainable development by developing our vision and approach in a more formal way over time. As a company, our objective in this area has also evolved in response to the expectations and realities of all our stakeholders. Today, RONA intends to become the leader in sustainable development for our industry in Canada.

Introducing effective measures that will meet present and future sustainable development needs and will make RONA a model in this regard is a business imperative my executive committee colleagues and I are firmly committed to in a personal sense. We saw a host of initiatives start up at RONA in 2008. These are all helping us contribute positively both to our company's growth and to the greater well-being of our society. We are proud to present these to you in the pages that follow.



Robert Dutton

The RONA approach to sustainable development

As Canada's largest retailer and distributor of hardware, home renovation and gardening products, we believe that we have both the ability and the responsibility to make a positive difference in our society and so become the industry leader for sustainable development in Canada. At RONA, sustainable development as an aspect of everyday life is based on three major pillars where we have identified and prioritized our areas of action.

- Economic development:

our company's economic sustainability as well as a stable workforce and job creation.

- Respect for the environment:

reduction of our environmental footprint, responsible procurement for the products we make available in our stores and promoting consumer awareness about responsible consumption.

- Social commitment:

to the personal growth and welfare of our employees, as well as involvement in the communities where we do business.

By interrelating and harmonizing these areas of action, we will integrate sustainable development into our activities in an efficient manner, based on our values – service, unity, respect, a sense of responsibility and search for the common good – and ethical rules.

In order to fulfill our social responsibility as a company, we have adopted a rigorous approach, which takes serious account of our various stakeholders – employees, customers, suppliers, shareholders, community groups and environmental organizations.



2008 INITIATIVES

In 2008, RONA’s commitment to sustainable development resulted in several major initiatives, which we will review in the following pages. This commitment extends to all of our network – from administrative centres to our distribution centres and including our network of corporate, franchised and affiliate stores.

Governance

At RONA, we advocate an approach that can guarantee the best possible integration of sustainable development in every sphere of activity and at all management levels.

The president and CEO is ultimately responsible for sustainable development within our company. As well, all executive committee members are responsible for sustainable development initiatives in their respective departments. The vice president for communications and public affairs coordinates corporate sustainable development initiatives.

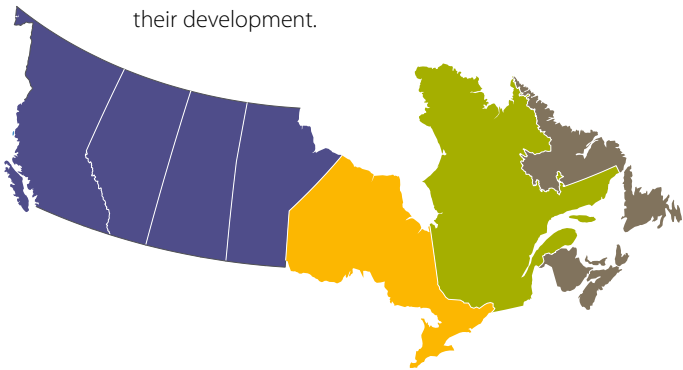
At RONA, sustainable development is an indicator that both represents and influences our company’s overall performance. RONA is committed accordingly to keeping stakeholders informed about measures we have undertaken and results obtained in this area, just as we would with regards to our financial results.

RONA employees also contribute to this general approach. In 2007 we created a sustainable development committee made up of managers from each of our company’s sectors. The committee’s key mandate is to identify, develop and evaluate sustainable development activities in their respective areas. In addition, some 20 employees serve as volunteers on our ECOcommittee, which helps suggest sustainable development initiatives for the RONA network.

Economic development 1

Economic aspects form one of the pillars that chart our course in sustainable development. Maintaining our financial performance and attracting the necessary capital put us in a position to implement the programs that allow us to contribute toward the welfare of our employees, our communities and the environment.

We plan on continuing RONA’s economic growth while still ensuring its financial sustainability and creating jobs. In 2008, we further expanded by adding six corporate stores and 31 affiliate dealer-owners to our network. We also continued the optimization of our network and improved its efficiency (all of our company’s financial data are presented and explained in detail in this annual report in the sections on financial results and review of operations). On the eve of our 70th anniversary, we now count more than 29,000 employees across our network. These individuals are at the heart of our activities; we remain committed to their well-being and we continue to invest in their development.



For RONA, playing our part in Canada’s economic welfare is a primary concern, and one of the things we’ve done to make this possible has been to develop a purchasing program that buys from Canadian suppliers. For several years now, 90% of all the products we sell in our stores have been purchased through Canadian suppliers and this, in turn, has helped create jobs and share the wealth across the country.

Respect for the environment

2

With a network of close to 700 stores, nine distribution centres and three administrative centres, RONA plays an important role in the Canadian society. Aware of the impact its activities have on the environment, RONA implements initiatives that will lessen its environmental footprint. This is an everyday concern for all sectors of the Company.

Greenhouse gas reduction

RONA believes that climate change is one of the greatest environmental challenge facing human beings today. Reduction of greenhouse gas emissions is an area that was selected in priority by RONA. We have therefore initiated a process to measure the greenhouse gases generated by our activities in order to reduce them.

In 2008, RONA participated for the first time in the **Carbon Disclosure Project (CDP)** by answering their request for information about our activities on climate change. The CDP is an independent nonprofit organization that acts as an intermediary between investors and businesses concerning the problems arising from climate change. It plays a primary role in encouraging companies to measure, manage and reduce their greenhouse gas emissions and their impact on climate change. RONA is proud to be taking part in this world-wide project and will continue over the next few years to further enlarge the information base we provide.

In regards to energy efficiency, RONA has initiated **a lower energy consumption program** in our stores by turning off 75% of all demonstrator lamps on display in our lighting departments, leaving only one item in four turned on at any given time. In addition, we have decided to **use compact fluorescent light bulbs** instead of conventional incandescent bulbs for the lamps and chandeliers that remain turned on. This results in significantly lower energy consumption.

Waste management

Where waste materials are concerned, reduce, recover, recycle and valorize is a well-established principle at RONA. Our approach, in fact, is intended to plot a complete picture of the waste materials generated by our company and to put initiatives in place that reduce the amount of waste going to landfill sites.

RONA has been **recovering cardboard** in our distribution centres and big-box stores ever since the early 1990s, and in 2008 we introduced **plastics recovery**. Installation of the equipment required for recovering plastics has been ongoing throughout the year.



Andrew Scott, RONA Pierrefonds, Quebec

CARDBOARD AND PLASTICS RECOVERY PROGRAM IN 2008 (IN DISTRIBUTION CENTRES AND BIG-BOX STORES)

CARDBOARD	3,865 tons recovered
PLASTICS	126 tons recovered
3,991 tons of waste materials were not shipped to landfill sites	
The program generated a net profit of nearly \$745,000 (based on sales of recovered materials and savings in landfill costs)	

In other efforts to reduce our environmental footprint, we are paying more attention to **company events** and how to make them more **environmentally responsible**. The largest of these events was the Spring Show, an annual exhibit held in 2008 at the Metro Toronto Convention Centre (MTCC), which brought together no fewer than 500 dealer-owners and numerous suppliers as well. This event was staged in compliance with the MTCC's ZERO WASTE EVENT program and generated the following results:

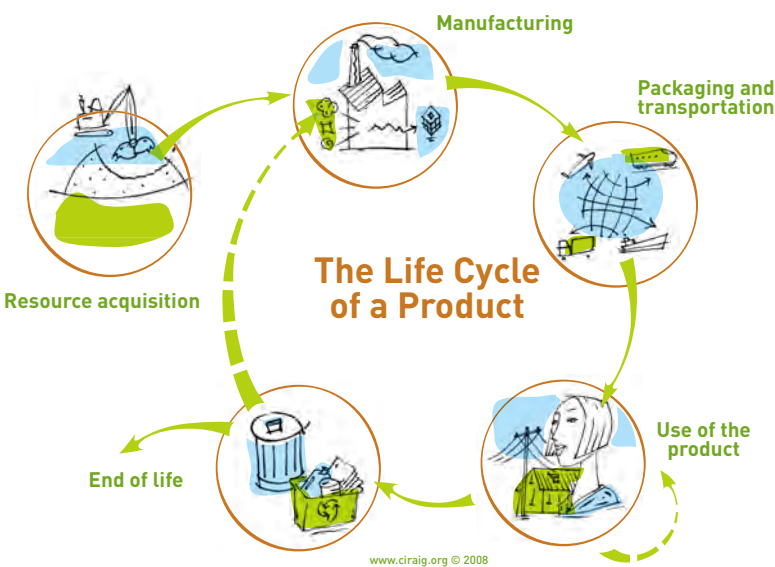
- 95.6% of the waste materials recovered were recycled, amounting to some 40 tons of waste that was not shipped to landfill sites.
- The equivalent of a 53-foot tractor trailer containing mainly lumber, plumbing items, bathroom vanity cabinets and home decoration items used in the exhibit was offered to the local *Habitat for Humanity* community organization.

Building construction

Several years ago, we announced our intention to introduce the Leadership in Energy and Environmental Design (LEED) system when constructing new buildings. RONA projects currently include some of this system's criteria, and we plan to open LEED certified stores in the next few years. The LEED rating system is based on a point scale used by the Canada Green Building Council, and is intended to make new and existing buildings more environmentally responsible.

Products

Product selection is a predominant factor through which RONA can exercise leadership and demonstrate our intention to do our part in protecting the environment and human rights. As our industry's leader, RONA aims to play a key role in preserving our wilderness areas and at the same time conserve natural resources at sustainable levels, while helping Canadians to adopt responsible consumer practices.



RONA ECO and eco-responsible products

In April 2008, RONA introduced the RONA ECO line of products in our stores. This was a first in Canada, as no retailer in our industry up to that time had associated its name and reputation with products whose environmental performance covered every stage of their life cycle. In order to carry the RONA ECO seal, a product

must meet the most rigorous criteria. What this means is that the product, throughout its entire life cycle, must leave a lighter ecological footprint than an equivalent conventional product. For each stage of their life cycle, RONA ECO products have been assessed by experts working under the International Chair in Life Cycle Assessment,

using four environmental performance criteria that are the subject of international scientific consensus: climate change, ecosystem health, human health and natural resources.

In 2008, a series of eight ecologically responsible cleaning products was launched under the RONA ECO brand, and in 2009 RONA intends to add over 40 new products, including gardening products, tools and building materials. Between now and 2011, RONA will be offering 250 RONA ECO products to consumers across Canada.

In addition, RONA offers its customers nearly 500 eco-responsible products under various brands that have been evaluated according to the life cycle analysis approach. In order to qualify as eco-responsible, the environmental impact of these products must be lower than similar products during one or more phases of their life cycle. Between now and 2011, several hundred eco-responsible products will be added to the list of those already available in our stores.



Number of products		
	In 2008	2011 objective
RONA ECO	8	250
Eco-responsible	500	2,000

Partnership with the International Chair in Life Cycle Assessment

In 2007, RONA undertook a partnership with the International Chair in Life Cycle Assessment at the École Polytechnique de Montréal, considered one of the world's most important research centres in this field.



INTERNATIONAL CHAIR
IN LIFE CYCLE ASSESSMENT

RONA's collaboration with the Chair has had notable results, including the development of an environmental assessment method and a list of standard specifications for our suppliers. The Chair guides RONA in selecting the products that will be part of our RONA ECO and eco-responsible lines, based on the life cycle analysis. By following this rigorous, holistic approach, we are making sure to decide on solutions that

do not merely shift a given product's environmental problems from one life cycle stage to another.

Given the importance that RONA attaches to its stakeholders, our company has put an ambitious education and awareness program in place for our suppliers and employees, in which the Chair is taking part.

In addition, the Chair and its team are working with RONA on our program to reduce our ecological footprint.



Together with the Chair in Life Cycle Assessment, RONA is a partner in the Life Cycle Initiative sponsored, amongst others, by the United Nations Environment Programme. The Initiative's objective is to promote life cycle thinking worldwide.

Alternative solutions to synthetic pesticides



As of July 1, 2009, RONA stores will cease the sale of synthetic pesticides for cosmetic use. This policy reflects our concern about the impact that the products we make available to consumers have on the health of human beings and the environment. RONA will accordingly withdraw 45 products from our stores and will continue to introduce ecological solutions as alternatives to synthetic pesticides. We are also training our employees and raising consumer awareness about how to adopt more responsible practices.

Certified forest products

In November 2008, RONA adopted a new wood products procurement policy for all our stores across Canada. RONA's new policy is intended to help preserve wilderness areas, promote responsible consumption and achieve our objective of providing certified forest products for our customers. RONA undertook a rigorous approach in developing this policy, and numerous consultations were held with the forest industry, environmental groups and scientific experts.

RONA's policy is inclusive with respect to the forest industry's three recognized certifications: the Canadian Standards Association (CSA), the Sustainable Forestry Initiative (SFI) and the Forest Stewardship Council (FSC). RONA has decided to give priority to the FSC certification, which best matches our own requirements about relations with indigenous communities and the preservation of biodiversity.

RONA also recognizes that forests are complex ecosystems and that many are richer biologically and more important than others from an ecological point of view. RONA has made the commitment not to source wood products from these forests.

In addition to criteria pertaining to the selection of suppliers and wood products for sale in its stores, RONA's commitment also translates into the adoption of specific objectives which will support the new policy's implementation.

As such, we plan that by the end of 2010, all commodity SPF (Spruce, Pine, Fir) and Western red cedar lumber wood for sale at RONA's corporate and franchised stores will have been sourced from certified forests, from 90% today.



Canadian Boreal Forest (©Greenpeace/Male).

We plan on making an important step forward as far as FSC-certified wood products are concerned. While 2% of SPF currently available in our corporate and franchised stores comes from FSC-certified forests, our goal is to reach a proportion of 4% before the end of 2009 and 25% before the end of 2012, based on availability and the competition. We believe these are objectives that clearly reflect our commitment to Canada's forests.

GREENPEACE

"Greenpeace congratulates RONA's leadership in contributing to forest protection and considers its wood products procurement policy to be the most demanding in North America."

Greenpeace Canada

SUSTAINABLE DEVELOPMENT

Consumer services

RONA offers a full line of services that promote responsible consumer practices.

Used paint recovery

Over 10 years ago, our company was a pioneer in the recovery and recycling of used paint in Quebec. Since July 1, 2008, RONA has been recovering used paint in our stores in Ontario as well – the first retailer in the province to introduce a program of this sort.

In 2008, we recovered nearly 2 million kilograms of paint through our stores in Quebec and Ontario. About 70% of this waste was recycled into new paint products and put back on the market under the “Boomerang” brand.



In March 2009, **Claude Bernier**, Executive Vice President, Marketing and Customer Innovations (left), participated to the launch of the Ontario DO WHAT YOU CAN program with the Ontario Environment Minister, **John Gerretsen**.

Reusable shopping bags

RONA introduced its own reusable shopping bags in February 2008. For every reusable bag purchased, RONA is donating \$0.10 to “Growing with Our Athletes,” our support program for 100 of Canada’s top athletes.



Used compact fluorescents recovery

In May 2008, we introduced a program in our stores for the collection of compact fluorescent light bulbs. With this program, RONA provides a safe disposal method for these bulbs, which contain small amounts of mercury gas. Mercury is a heavy metal, and can cause serious environmental damage. Once at the recycling centre, the bulbs’ components are recovered through a mechanical and then a chemical separation process. The mercury recovered is then reused in a variety of different ways.



Recovery of used batteries and tool blades

As presented in the fall of 2008 at the Spring Show, a new collection program is now offered across our stores everywhere in Canada. Since March 1st, RONA is recovering single-use, rechargeable as well as tools’ batteries along with used tool blades. Batteries will see their components recycled whenever possible or disposed of in an ecological manner. Tool blades are being reconditioned and offered back to consumers under the RONA ECO brand, as introduced during RONA’s 2009 Spring Show. Consumers who return used RONA ECO tool blades receive a credit applicable towards a new RONA ECO blade purchase.



Information and awareness

Besides offering products and services that represent eco-responsible choices, RONA considers it is important to inform and educate our clients, raise their awareness and encourage them to adopt more responsible practices.

New signage in our stores

In October 2008, RONA launched new signage designed to help customers locate eco-responsible and RONA ECO products in the various store aisles. The signage also carry detailed, objective information about the environmentally friendly features of the various eco-responsible products and reasons why consumers should choose them. They also inform people about the life cycle analysis approach RONA uses in selecting its products.

Exhibit and lecture

As part of the 2009 Spring Show, RONA held a Consumers Day, giving consumers access to the Eco-Responsible Section, where they could obtain information about RONA ECO and other eco-responsible products available in our stores, as well as our company's new environmental policies. Consumers were also invited to a lecture given by the internationally renowned environmentalist, Dr. David Suzuki.



Social commitment

3

Respect for people and the search for the common good are part of RONA's values and are central to everything we undertake.

RONA has over 29,000 employees, people who interact with their communities in every region of Canada. The well-being of these employees and their commitment to our company are priorities for RONA. Which is why we make numerous efforts and allocate resources to develop and implement initiatives that are designed to attract, retain and motivate talent.

Health and safety

At RONA, we support a health and safety program that is intended to protect our employees, contract workers, customers and the general public, as well as our own property. Our objective is not only to provide a safe, healthy working environment but also to create a culture of health and safety that goes beyond the limits of the working environment and is an integral part of the everyday life of our employees.

In 2008, we launched the second version of the National Health and Safety Guide, which covers all RONA's policies and procedures. We also began implementation of our Health and Safety Leaders Program. The leader is a worker in one of our stores or distribution centres who coordinates all prevention activities.

Working conditions

Because we care about our employees and their needs, RONA takes definite steps to help them make progress in both their personal and their professional lives.

Employee Assistance Program (EAP)

A new Employee Assistance Program (EAP) in effect as of January 1, 2009 allows all RONA employees in Canada to benefit

from free, confidential counselling sessions to help them resolve problems of a personal or professional nature.

Volunteers for the 2010 Vancouver Games

As national partner, RONA will appoint 100 employees as volunteers at the Vancouver 2010 Winter Games, with transportation and accommodations provided. Volunteers will continue to receive their salaries and benefits while at the Games.



RONA
NATIONAL PARTNER

Employee development

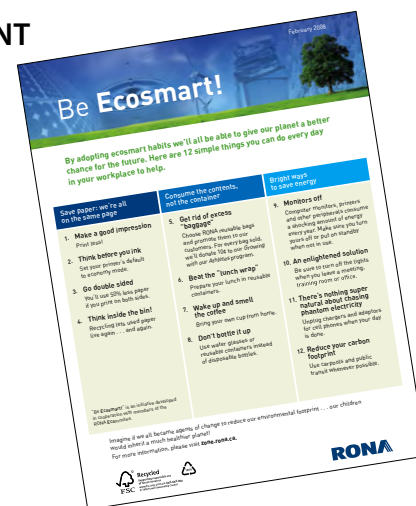
We consider it very important to inform and educate our employees in order to ensure that they are qualified, motivated ambassadors who understand the current and future issues at stake for RONA, as well as our company's various initiatives.

Information

In addition to informing our employees on a regular basis on the Company's objectives and business achievements, we held the RONA Tour again in 2008; senior management met with over 6,000 of our employees across the country.



RONA Tour, Toronto, March 2008.



Furthermore, a number of new initiatives were undertaken in 2008 in the environmental sector, namely the dissemination of materials explaining the life cycle approach, as well as the first issue of the *Be Ecosmart* newsletter, which publishes ECommittee member suggestions about ways to adopt better environmental practices. At RONA, commitment to sustainable development is everyone's business and the active participation of our employees is a key success factor.

Training

We consider it our duty to help our employees become more knowledgeable and provide the tools they need to deliver quality service to our customers. In 2008:

- Over 2,000 employees attended the RONA Academy, which is designed to familiarize them with the products available in our stores.
- Over 293,000 individual learning sessions – more than 146,500 hours – were held under the IC4 Program, an online study program employees can take during working hours.
- Several new programs were introduced, including education about sustainable development, representing over 30,000 hours of learning.

Educational activities are also conducted by the Life Cycle Chair. These are complementary to the training program offered by our People and Culture Department.

We care greatly about being part of the social fabric, and we contribute to the well-being of the communities where we live and work by investing capital and resources where they are needed most.

The RONA Foundation

In 2008, we celebrated the 10th anniversary of the RONA Foundation, whose mission is to provide assistance for young Canadians between the ages of 12 and 30 who are facing problems associated with dropping out of school and illiteracy. The Foundation donated over \$350,000 to 56 organizations across the country in 2008. Since its inception, the RONA Foundation has distributed over \$2 million to organizations providing assistance to young people.



In British Columbia, a special training program in the Surrey School District helps those at risk of dropping out of school keep up their studies and consider a future career in retailing by taking part in training on the job at RONA stores.

Corporate donations

Donations by RONA to organizations dedicated to healthcare, education, the arts and our national heritage totalled \$640,000 in 2008.

Social sponsorship

"Growing with Our Athletes"

This program supports the growth and development of high performance athletes in Canada. RONA is committed to donating \$8,000 per year for five years to each of 100 Canadian athletes.

RONA MS Bike Tour

In 2008, in addition to our \$250,000 contribution as principal sponsor, we mobilized 254 participants from 19 stores, distribution and

administration centers who took part in 14 bike tours in six provinces. Together, they raised over \$115,000 for the Multiple Sclerosis Society of Canada, which brings RONA's total contribution for the year at \$365,000.

Red Cross

RONA and its stores donated over \$300,000 to the Red Cross in 2008. As an official national partner, RONA provided 830 clean-up kits free of charge to Canadian families displaced by disasters.

JJ Bear Campaign

In Ontario, the JJ Bear Campaign, in cooperation with the Children's Aid Foundation, organized a fundraiser selling "JJ Bear" teddy bears in RONA stores to help young victims of child abuse and neglect. The campaign was a huge success, with over \$70,000 raised in our stores. The proceeds will go to fund a post-secondary scholarship program.

Contributions by our stores

RONA's 700 stores also contribute significantly to the prosperity and well-being of their communities through their donations and numerous charitable activities. Employees from our corporate and franchised stores put together an important number of community activities every year. Our affiliate store owners, who more often than not have been in business for a long time, are deeply involved in their communities and are taking part in many grassroots initiatives.

Community activity

RONA Eco-Responsible Day

In 2008, we organized our first "Eco-Responsible Day," where store employees joined Olympic and Paralympic athletes to conduct clean-up operations in eight Canadian cities from Vancouver to Halifax.

The RONA Vancouver 2010 Fabrication Shop

The RONA Vancouver 2010 Fabrication Shop opened in November of 2007. Working in collaboration, RONA and the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC) partnered with community organizations to set up the Fab Shop, where small wood products required at the Olympic and Paralympic venues are built. The Fab Shop is also host to the delivery of a community-based training program providing carpentry skills training and supported job experience to individuals who have yet to successfully enter the workforce. A total of four groups of trainees will go through the Fab Shop carpentry training program until 2010.

Since the project's start, over 2,000 objects destined to bring the 2010 Winter Games to life have been manufactured at the RONA Vancouver 2010 Fab Shop, including street barricades, hockey stick racks and picnic tables. The first group of trainees to graduate from the Fab Shop in 2008 was composed of urban youth who have had difficulty entering and staying in the workforce. A total of 12 out of the 17 original recruits graduated from the program while nine graduates have obtained a job with three staying to work in the Fab Shop.

Awards, honours and recognition

In 2008, RONA earned several awards in recognition of our commitment to the environment and to ethics in business, and our initiatives on these issues.

- **Coup de cœur for Environment and Sustainable Development**, presented by the Board of Trade of Metropolitan Montreal

- **Prix québécois de l'entreprise citoyenne** presented by *L'Actualité*/Korn Ferry (large enterprise category)

- **ENERGY WISE Award of Excellence**, presented by Hydro-Quebec (business partner – retailer category)

- **Certificate of recognition for Energy Conservation**, awarded by the Chief Energy Conservation Officer of Ontario

Taking the right measures: governance and strategy

The Board of Directors is responsible to the shareholders for the governance of the Company. That mandate includes a strategic role that becomes even more important during times such as the current global economic crisis.

The 2008 fiscal year was my first full cycle as Chairman of the RONA Board of Directors. It was a year our Company was confronted with a significant deterioration in the economy and, by extension, with a series of increasingly difficult challenges.

We faced these challenges calmly and with a clear head. While we cannot claim to have anticipated the extent of the financial crisis, we did foresee the economic slowdown and we were ready for it when it came. We strengthened our balance sheet and reduced our debt ahead of time. And the RONA team prepared a plan that is well adapted not only to our own challenges and opportunities, but to the unfavourable macroeconomic situation as well.

Strategy and governance: three success factors

This capacity for strategic anticipation and adaptation is not a matter of chance. It is based on three essential factors.

First of all, it is based on the quality of the RONA team. Once again this year RONA management and employees demonstrated their in-depth knowledge of their profession, their market and their industry.

It is also based on the quality of the leadership that drives the team. The Board's primary responsibility is to ensure that the Company's chief executive and his direct reports are the right people for the job, and that they are well motivated and fully supported.

Finally, it is based on the strength of the strategic approach, which relies not only on rigorous processes involving the Company and Board leadership, but also on the presence of shared objectives and the required distance and independence to create and maintain healthy and constructive discussions between the two groups.

Indeed, the Board is structured to maintain its independence from the management team while also providing a range of knowledge and competencies that are relevant to the Company. In 2008, ten of the thirteen Board members were considered to be independent. The non-independent members are Robert Dutton, President and CEO, as well as Louise Caya and Jean-Guy Hébert, two dealer-owners who provide us with the benefit of their solid operational experience.



Jean Gaulin
Chairman of the Board of RONA

This independence serves the Board well in achieving both of our mandates: governance and strategic advice. Independence is essential for genuine, transparent governance, and it is also the foundation of the Board's significant contribution to RONA's strategic approach. In addition to choosing and evaluating the Company's key players, it is up to us to ask tough questions and challenge suggestions to ensure that management proposals are sound.

But while independence affords the Board a healthy step back, it is not enough to ensure either good governance or quality strategic advice. A good balance between independence and knowledge of the industry is required. And one of the strengths of RONA's Board of Directors is that it can count on a number of retail industry specialists from different parts of the country, including two RONA dealer-owners.

We believe that, backed by these assets, the theme of this annual report is accurate: in 2008 RONA took the "right measures" with regard to our strategic options and the current economic climate. The proof is in the success of the first phase of the 2008-2011 strategic plan – the PEP program.

Changes on the Board

Three directors will not be renewing their mandate in 2009: Robert Sartor, Pierre Ducros and Louis A. Tanguay. On behalf of all of their colleagues members of the Board, I want to thank them for their tremendous contributions to our efforts.

Two of these directors reached the Board's planned retirement age. I would therefore like to mention Louis Tanguay's role as Chairman of the Human Resources and Compensation Committee, and his contribution to RONA's successful transition from a cooperative to a publicly listed corporation, as his appointment to the Board, in 1999, preceded RONA's IPO by three years.

I also want to point out Pierre Ducros' valuable work as Chairman of the Nomination and Governance Committee. He and all the other Board members were recognized for their governance efforts in January 2009 by *Korn Ferry* and *Commerce* magazine, which designated RONA the winner of the Excellence in Corporate Governance Award in the large enterprise category.

Outlook

The economic outlook for 2009 is at least as challenging as 2008. The most optimistic projections predict a lukewarm recovery in the second half, and realistic forecasts tell us we cannot count on the economic environment to relaunch our growth. Nevertheless RONA's plan is appropriate, both in the clarity of the measures planned to lessen the negative impact of the current economic environment and because it focuses on seizing opportunities that inevitably arise during and after any recession.

I want to thank all 29,000 RONA employees for their hard work in 2008 and express our confidence in the various initiatives they will be implementing in the years ahead to achieve the lasting success of our Company.

Jean Gaulin
Chairman of the 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. (prefabricated kiosks and shelters) **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.

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: Doris Joan Daughney, 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, Director's 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

Management's discussion and analysis

Fiscal year ended December 28, 2008

RONA inc. ("RONA", "we" or the "Company") is Canada's leading retailer and distributor of home improvement, hardware and gardening products. The Company operates or serves a network of nearly 700 corporate, franchise and affiliate stores, as well as nine hardware and building materials distribution centres.

RONA's sales include:

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

Financial statements

RONA's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are expressed in Canadian dollars. The Company has filed its audited consolidated financial statements for the year ended December 28, 2008 with the Canadian Securities Administrators. These statements can be viewed online at www.sedar.com or on RONA's website at www.rona.ca. This Management Discussion and Analysis ("MD&A") should be read in conjunction with the Company's financial statements and related notes.

Non-GAAP performance measures

In this report, as in our internal management, we use the concept of earnings before interest, taxes, depreciation, amortization and non-controlling interest (EBITDA), which we also refer to as operating income. This measure corresponds to "Earnings before the following items" in our consolidated financial statements. We also use the concept of "adjusted gross margin," which corresponds to sales less the cost of goods sold including all vendor rebates.

While EBITDA and adjusted gross margin do not have definitions standardized by GAAP, they are widely used in our industry and financial circles to measure the profitability of operations, excluding tax considerations and the cost and use of capital. Given that they are not standardized, EBITDA and adjusted gross margin cannot be compared from one company to the next. Still, we establish them in the same way for the segments identified, and, unless expressly mentioned, our method does not change over time.

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Fiscal year

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

Highlights of the last three years

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

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

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

RONA: Key figures for 2008, 2007 and 2006

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

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

* Please see "Fiscal year".

Financial highlights

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

	2008	2007
Results of operations		
Sales	\$ 4,891,122	\$ 4,785,106
Percentage increase	2.2%	5.1%
Operating income (EBITDA)	377,101	400,207
Operating income (excluding unusual items)	389,323	400,207
Net earnings	160,199	185,089
Earnings per share**	1.39	1.61
Diluted earnings per share**	1.37	1.59
Net earnings (excluding unusual items)	171,242	185,089
Earnings per share (excluding unusual items)**	1.48	1.61
Diluted earnings per share (excluding unusual items)**	1.47	1.59
Common shares		
Outstanding**	115,819,699	115,412,766
Cash flows from operating activities	350,302	276,809
Financial structure		
Total assets	2,506,173	2,482,446
Shareholders' equity	1,492,515	1,325,206
Long-term debt	494,171	636,776

* 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).

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

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

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

Update on the Company's strategic orientation

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

Introduction of the 2008–2011 strategic plan

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

Phase 1: The PEP program

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

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

	2006*	2005	2004	2003	2002	2001	2000	1999	1998
\$	4,551,936	\$ 4,026,424	\$ 3,625,866	\$ 2,666,167	\$ 2,293,304	\$ 1,800,389	\$ 1,288,693	\$ 960,548	\$ 798,828
	13.1%	11.0%	36.0%	16.3%	27.4%	39.7%	34.2%	20.2%	16.0%
	383,882	333,604	278,351	175,063	128,784	90,528	60,088	37,175	30,570
	383,882	333,604	278,351	175,063	128,784	90,528	60,088	37,175	30,570
	190,584	175,210	138,225	77,947	43,114	24,633	18,013	14,706	13,511
	1.66	1.53	1.22	0.73	0.56	0.37	0.29	0.23	0.21
	1.64	1.51	1.20	0.72	0.54	0.36	0.28	0.22	0.20
	190,584	175,210	138,225	77,947	43,114	24,633	18,013	14,706	13,511
	1.66	1.53	1.22	0.73	0.56	0.37	0.29	0.23	0.21
	1.64	1.51	1.20	0.72	0.54	0.36	0.28	0.22	0.20
	114,935,569	114,412,744	113,957,270	113,614,130	95,243,888	73,747,304	57,683,560	60,928,128	62,365,128
	283,437	158,712	107,252	114,135	83,257	68,038	33,051	(5,617)	30,615
	2,108,382	1,667,616	1,336,745	1,262,022	766,434	744,076	450,973	287,916	253,575
	1,134,366	936,184	752,695	610,283	385,702	211,820	132,658	121,002	108,683
	484,821	242,089	148,591	266,922	120,140	305,868	116,287	39,787	36,834

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Sales improvement and customer loyalty objectives for the RONA network

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

Phase 2: Accelerated development

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

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

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

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

2008–2011 financial objectives

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

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

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

Achievements in the year ended December 28, 2008

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

1. Improve the profitability of our corporate store network:

- > Adjusted gross margin, excluding unusual items, increased 89 basis points in fiscal 2008, or 101 basis points if calculated excluding the effect of the significant shift in weighting of the distribution sector. Adjusted gross margin in the retail sector increased by 116 basis points as a result of better management of product categories, higher private brand sales, reduced store losses (shrinkage) and ongoing improvements in terms and conditions from our suppliers.
- > Several new initiatives to improve the profitability of under-performing stores, especially in terms of merchandising, targeted marketing and store losses (shrinkage). The process of opening new stores has also been improved since the beginning of the year. Integration of our most recent acquisitions – Dick's Lumber and Best-MAR – is continuing, with both companies posting improvements in EBITDA margins over the year.
- > Network optimization through the closing of two traditional and two big-box stores. Business volume from these stores has been transferred to existing RONA corporate stores, RONA affiliates or new stores.
- > Eight big-box stores under the Réno-Dépôt banner were renovated in 2008 and have posted much stronger results since the renovations.

2. Optimize the supply chain:

- > Comparable inventories were reduced \$118 million at year end 2008 compared to 2007 (excluding new stores and acquisitions) resulting in lower operating and financing costs. Including new stores and acquisitions, inventories were reduced by \$93 million.
- > Optimization of various available distribution channels, especially for imports and continuous flow distribution, resulting in a reduction in logistics costs by nearly \$6 million since the beginning of the year.

3. Accelerate recruitment of independent dealer-owners:

- > Over the course of 2008, from January 1 to December 28, RONA recruited 31 new independent dealer-owners from coast to coast, representing estimated annual retail sales of nearly \$132 million. Since the beginning of 2009, RONA has recruited 4 new dealer-owners, representing nearly \$19 million in annual retail sales.
- > Same-store sales in RONA's affiliate dealer-owner network increased 3.8% in 2008, reflecting the robustness of the dealer-owner network and their respective expansion projects.

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

> **Improve sales and increase customer loyalty across the RONA network:**

- > 4.9% growth in distribution sector sales, stemming from the recruitment of new dealer-owners and the implementation of new sales programs to support our affiliates in their expansion projects and accelerate the conversion process of new affiliates.
- > Growth of over 10% in private brand sales in 2008 – a sales penetration rate of nearly 17%.
- > Over 20% growth in sales of installation services during the year.
- > An increase of close to 10% in sales to AIR MILES® customers since the beginning of the year.
- > An increase of over 14% in the number of new RONA Desjardins credit cards and over 12% in the volume of financing through Desjardins since the beginning of the year.
- > Over 240 new eco-responsible products, including 40 RONA ECO products, were presented at the RONA 2009 Spring Show at the end of November.
- > High visibility from the Beijing 2008 Olympics advertising campaign:
 - RONA broadcast a series of 10 commercials during the Games, demonstrating our support for Canadian athletes, our commitment to the Vancouver 2010 Games, our social and community involvement, and the commitment of our employees.
 - In the target 25-to-54 age group, RONA television advertising reached an average of 1.2 million people daily on the CBC network and an average of 401,000 daily on Radio-Canada.
 - In all, the Canadian English-language networks reached 24 million people during the 17-day competition and the French-language networks reached 6 million.
 - RONA posted the largest gain in consumer awareness following the advertising period, compared to the period preceding the campaign, of all the Olympic sponsors – an increase of nearly 20%, from 48% to 57%.

At year end 2008, RONA compiled an exhaustive list of all the PEP program initiatives that will be carried forward into 2009 and added new productivity, efficiency and profitability improvement measures. This list is presented in the “Outlook” section of this report on page 45.

Achievements related to 2008–2011 financial objectives

1. Remain the industry leader in Canada, with a market share of over 20% and a special focus on Western Canada and Ontario. At the beginning of 2008, RONA's market share was estimated at 17%:

- > In 2008, RONA recruited a total of 31 new dealer-owners from coast to coast, representing nearly \$132 million in annual retail sales. Nearly 50% of this business volume is from Western Canada, while 30% is from Ontario and 20% is from Quebec.
- > Since the beginning of the year, we opened six new stores, two big-box stores of over 100,000 square feet and four proximity stores measuring 52,000 square feet. The big-box stores are located in Halifax, Nova Scotia, and Candiac, Quebec. The proximity stores are located in Kamloops, British Columbia, Carleton Place and Grimsby, Ontario, and Thetford Mines, Quebec. As well, two existing stores were renovated in British Columbia, one in Kamloops and another in Squamish.
- > In 2008, eight big-box stores flying the Réno-Dépôt banner in Quebec were renovated and have subsequently posted strong sales growth. This \$20-million project, combined with the recent opening of a Réno-Dépôt store in Candiac, RONA store openings in Quebec, particularly in Brossard and Thetford Mines, and a strong performance by our corporate and affiliate network in Quebec, has consolidated our position as the leader in this market. RONA generates nearly 45% of its consolidated sales in Quebec.

> In November 2008, for the first time in its history, RONA held its annual Spring Show in Toronto, Ontario – a reflection of the RONA network's rapid expansion outside Quebec in recent years. This event, held in a 100,000 square-foot exhibition space, brought together dealer-owners and managers of nearly 700 RONA stores across Canada, as well as most of our suppliers. RONA presented 2,000 new products, along with the new trends that will be rolled out in spring 2009.

> In light of the numerous development initiatives outlined above, RONA estimates its share of the Canadian renovation/construction market at 17.5% at the end of 2008, compared to 17% at the beginning of the year.

2. Increase annual earnings per share by low single digits on average during the first half of the plan, a period when we expect to face difficult market conditions, and double digits in the following years:

- > Given market conditions that were even more difficult than anticipated at the beginning of the year, RONA posted a 13.8% decrease in diluted earnings per share, including unusual items, in 2008. Diluted earnings per share decreased from \$1.59 in 2007 to \$1.37 in 2008. Diluted earnings per share excluding unusual items, however, were \$1.47, a much less pronounced decrease of \$0.12 or 7.5%, compared to 2007.
- > The Company has started to benefit from the various efficiency improvement measures introduced under the PEP program. In 2008, RONA was able to mitigate the slide in same-store sales caused by the decline in consumer confidence. The numerous efficiency improvement measures ongoing under this program will continue to produce gains over the next year and help offset the negative effects of the downward pressure on sales in our industry.
- > While the PEP program helped to largely offset the negative effects related to the more difficult conditions than expected since the beginning of the year, the extent of the current global financial crisis brings a high degree of uncertainty in terms of future consumer activity. RONA management estimates that the expected decline in the economic environment in upcoming quarters will prevent it from achieving its low-single-digit-growth objective for average earnings per share in the first half of the 2008–2011 business plan.
- > Management is nevertheless optimistic about the fundamental factors that support demand for and popularity of renovation projects, especially as this demand should be stimulated by the renovation tax credits announced by the federal government and Quebec's government in 2009 and RONA's special complementary incentive measures.
- > The Company also plans to actively pursue the various PEP program measures currently underway to stimulate and improve efficiency in the coming quarters and will take good care to adapt our operations and capital investments to the unusual economic conditions we anticipate in 2009. Finally, management believes that the current market conditions increase the potential for consolidating the Canadian market, especially through recruitment of independent dealer-owners. RONA plans to maintain a solid balance sheet in order to seize the growth opportunities that arise during or near the end of the recession.

3. Optimize our return on invested capital:

- > Since the beginning of the year, RONA has made considerable efforts to optimize our existing network, rationalize its invested capital and optimize its most recent investments, including significant reductions of comparable inventories in every quarter, the sale of non-core assets, closure of under-performing stores and reduction of store construction costs. Disciplined management of capital asset investments and strong growth of the distribution business has also played a part. However, the current pressure on sales and profitability has temporarily masked the success of these promising initiatives in terms of the optimization of our returns on invested capital.

MANAGEMENT'S DISCUSSION AND ANALYSIS

4. Maintain an investment grade credit rating:

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

Analysis of consolidated results for the year ended December 28, 2008

Economic conditions

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

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

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

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

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

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

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

Consolidated sales

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

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

Adjusted Gross margin

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

Unusual items

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

Consolidated operating income

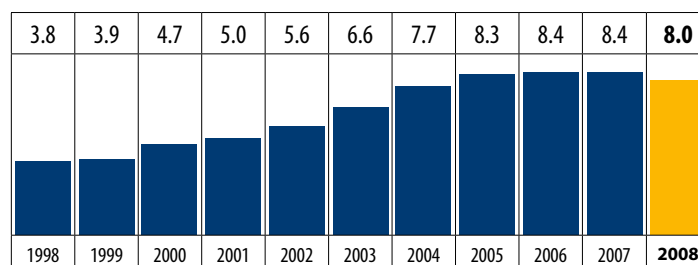
Operating income, including unusual items, was \$377.1 million for the year ended December 28, 2008, down \$23.1 million, or 5.8%, from the \$400.2 million posted in 2007. The EBITDA margin dropped 65 basis points from 8.36% in 2007 to 7.71% in 2008, largely due to the unusual items explained above and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

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

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

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

RONA : EBITDA Margin (%), 1998-2008



Note: The EBITDA margin for 2008 excludes unusual items

Interest, depreciation and amortization

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

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

Income taxes

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

Net earnings

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Analysis of segment results for the year ended December 28, 2008

RONA: Key segment figures

(In thousands of dollars)

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

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

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

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

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

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

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

Reduction in comparable inventories

(In millions of dollars)

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

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

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

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

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

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

Cash Flows and Financial Position

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

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

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

RONA: Contractual obligations by term

as at December 28, 2008
(In thousands of dollars)

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

RONA: Outstanding shares

as at January 31, 2009

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

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

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

Quarterly Performance

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

RONA: Consolidated quarterly financial results

(In millions of dollars, except earnings per share)

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

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

Annual change in same-store sales

Last nine quarters

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

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

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

Quarterly performance in 2007

First quarter

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

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

Net earnings for first quarter 2007 stood at \$9.0 million or \$0.08 per share, compared to \$16.4 million in 2006, or \$0.14 per share. Half of the decline can be attributed to temporary and foreseen effects, which were expected to diminish over the subsequent quarters. The other half was related to conditions that were more difficult to anticipate, such as unfavourable weather conditions and a weaker-than-anticipated economy in Ontario and Quebec.

Second quarter

Consolidated sales in second quarter 2007 totalled \$1,469.1 million, 9.1% higher than the \$1,346.0 million posted in 2006. This increase was mainly due to acquisitions and store openings. Consolidated growth (minus major acquisitions – Noble Trade, Curtis Lumber and Mountain Building Centres) was 4.8%. This organic growth was the result of sales generated by new stores opened in the last 12 months, the acquisition of affiliate stores and a slight increase in sales in the distribution network. Excluding the effects of the 1.1% drop in the average price of forest products, same-store sales increased by 1.4% during this quarter.

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

Third quarter

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Fourth quarter

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

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

Quarterly performance in 2008

First quarter

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

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

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

Second quarter

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

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

Third quarter

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

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

Fourth quarter

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

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

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

Outlook

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

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

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

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

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

Improve the profitability of our corporate stores network:

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

Optimize our supply chain:

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

Accelerate recruitment of independent dealer-owners:

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

Improve sales and customer loyalty in the RONA network:

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

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

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

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

Risk and uncertainties

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

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

Market and competition

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

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

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

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

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

Economy

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

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

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

Human resources

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

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

Information technology

Since acquisitions are the focus of our growth and business model, our information technology structure is complex.

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

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

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

Reputation

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

Supply chain

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

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

Acquisition / Recruitment / Integration / Development

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

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

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

Legal and regulatory requirements

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

Accounting standards

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

Availability of financing

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

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

Changes in accounting policies

At the beginning of 2008, the Company retroactively adopted, without restatement of prior period financial statements, the following new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook:

Financial Instruments – Disclosures and Presentation

Section 3862, *Financial Instruments – Disclosures* describes the required disclosures related to the significance of financial instruments on the entity's financial position and performance and the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863, *Financial Instruments – Presentation* establishes standards for presentation of financial instruments and non-financial derivatives. These sections complement the principles of recognition, measurement and presentation of financial instruments of Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3865, *Hedges* and replace the presentation standards of Section 3861, *Financial Instruments – Disclosure and Presentation*.

Capital disclosures

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

Inventories

Section 3031, *Inventories* replaces Section 3030 of the same title and prescribes the basis and method for measuring inventories. It allows for the reversal of any previous write-down of inventories as a result of an increase in value. Finally, the section prescribes new requirements on the disclosure of the accounting policies adopted, carrying amounts, amounts recognized as an expense, the amount of any write-down and the amount of any reversal of a write-down.

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

New accounting standards not yet implemented

Goodwill and Intangible Assets

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

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

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

International Financial Reporting Standards (IFRS)

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

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

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

Significant accounting estimates

Some amounts in the financial statements or in this analysis are estimates made by management based on knowledge of current or anticipated events. Management also took into consideration the current unusual economic context in its assessment of significant accounting estimates. The significant estimates are: inventory valuation, volume rebates, long-term assets, goodwill and non-amortizable trademarks, income taxes and employee future benefits.

Inventory

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

Volume rebates

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

Long-term assets

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

Goodwill and non-amortizable trademarks

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

Non-amortizable trademarks are also tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the future undiscounted cash flows expected from the asset. The loss is determined by comparing the book value of the asset to its fair value. The fair value is based on discounted cash flows.

Income taxes

The Company uses the liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are determined according to differences between the carrying amounts and tax bases of assets and liabilities. They are measured by applying enacted or substantively enacted tax rates and laws at the date of the financial statements for the years in which the temporary differences are expected to reverse. Future income tax assets are recognized only if management believes it is more likely than not that they will be realized.

Employee future benefits

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

Disclosing financial information

In 2008, management finalized its work on implementing Canadian Securities Authorities Multilateral Instrument 52-109, "Certification of disclosure in issuer's annual and interim filings" ("MI 52-109"). This work was performed in accordance with the recognized control framework of COSO (Committee of Sponsoring Organizations of the Treadway Commission), and for the technology aspect, we used the IT Control Objectives for Sarbanes-Oxley from the IT Governance Institute.

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

Disclosure controls and procedures

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

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

Internal Control over Financial Reporting

RONA evaluated the design of internal control over financial reporting as at December 28, 2008, in accordance with the guidelines of MI 52-109. This evaluation allowed the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer to conclude that internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

In addition, this work allowed management to determine that, during the year ended December 28, 2008, no change to internal control over financial reporting has occurred that has materially affected, or is reasonably likely to have materially affected, such control.

Forward-looking statements

This MD&A includes "forward-looking statements" that involve risks and uncertainties. All statements other than statements of historical facts included in this MD&A, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the Company, may constitute forward-looking statements within the meaning of the Canadian securities legislation and regulations. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "foresee," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct.

Forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Company's business. For example, they do not include the effect of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made.

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

The forward-looking statements in this MD&A reflect the Company's expectations as at February 19, 2009, and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

Additional information

This MD&A was prepared as at February 19, 2009. The reader will find additional information concerning RONA, including the Company's Annual Information Form, on the Company's website at www.rona.ca or on the SEDAR website at www.sedar.com.



Claude Guévin CA
Executive Vice President
and Chief Financial Officer



Robert Dutton
President and Chief Executive Officer

Financial Statements

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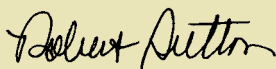
Management's Report on the consolidated financial statements

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 10, 2009

Auditors' Report to the shareholders of RONA inc.

We have audited the consolidated balance sheets of RONA inc. as at December 28, 2008 and December 30, 2007 and the consolidated statements of earnings, retained earnings, 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 misstatements. 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 28, 2008 and December 30, 2007 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Montréal, February 10, 2009

¹ Chartered accountant auditor permit no. 9737

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Earnings

Years ended December 28, 2008 and December 30, 2007
(In thousands of dollars, except earnings per share)

	2008	2007
Sales	\$ 4,891,122	\$ 4,785,106
Earnings before the following items (Note 5)	377,101	400,207
Interest on long-term debt	28,106	28,270
Interest on bank loans	2,134	3,329
Depreciation and amortization (Notes 11, 13 and 14)	108,091	90,901
	138,331	122,500
Earnings before income taxes and non-controlling interest	238,770	277,707
Income taxes (Note 6)	73,541	88,130
Earnings before non-controlling interest	165,229	189,577
Non-controlling interest	5,030	4,488
Net earnings and comprehensive income	\$ 160,199	\$ 185,089
Net earnings per share (Note 25)		
Basic	\$ 1.39	\$ 1.61
Diluted	\$ 1.37	\$ 1.59

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

Consolidated Retained Earnings Consolidated Contributed Surplus

Years ended December 28, 2008 and December 30, 2007
(In thousands of dollars)

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

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

Consolidated Cash Flows

Years ended December 28, 2008 and December 30, 2007
(In thousands of dollars)

	2008	2007
Operating activities		
Net earnings	\$ 160,199	\$ 185,089
Non-cash items		
Depreciation and amortization	108,091	90,901
Derivative financial instruments	1,192	(2,483)
Future income taxes	(1,733)	1,894
Net loss (gain) on disposal of assets	(2,796)	1,041
Compensation cost relating to stock option plans	1,518	2,082
Non-controlling interest	5,030	4,488
Other items	3,465	3,158
	274,966	286,170
Changes in working capital items (Note 7)	75,336	(9,361)
Cash flows from operating activities	350,302	276,809
Investing activities		
Business acquisitions (Note 8)	(4,824)	(228,502)
Advances to joint ventures and other advances	8,139	(2,795)
Other investments	(3,155)	(588)
Fixed assets	(196,145)	(233,662)
Other assets	(13,380)	(9,414)
Disposal of fixed assets	11,686	10,375
Disposal of investments	10,618	6,653
Cash flows from investing activities	(187,061)	(457,933)
Financing activities		
Bank loans and revolving credit	(131,518)	156,128
Other long-term debt	8,560	1,740
Repayment of other long-term debt and redemption of preferred shares	(33,946)	(36,472)
Issue of common shares	5,592	5,318
Issue of equity securities to non controlling interest	–	750
Cash dividends paid by a subsidiary to non-controlling interest	(2,450)	(1,960)
Cash flows from financing activities	(153,762)	125,504
Net increase (decrease) in cash	9,479	(55,620)
Cash, beginning of year	2,866	58,486
Cash, end of year	\$ 12,345	\$ 2,866
Supplementary information		
Interest paid	\$ 33,165	\$ 28,555
Income taxes paid	\$ 75,508	\$ 100,952

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

CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Balance Sheets

December 28, 2008 and December 30, 2007
(In thousands of dollars)

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

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

On behalf of the Board,

J. Spencer Lanthier
President of the Audit Committee

Jean Gaulin
Chairman of the Board of Directors

Notes to Consolidated Financial Statements

December 28, 2008 and December 30, 2007
(In thousands of dollars, except amounts per share)

1. Governing statutes and nature of operations

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

2. Changes in accounting policies

At the beginning of 2008, the Company retroactively adopted, without restatement of prior period financial statements, the following new recommendations of the Canadian Institute of Chartered Accountants' (CICA) Handbook:

Financial instruments – Disclosures and presentation

Section 3862, *Financial Instruments – Disclosures* describes the required disclosures related to the significance of financial instruments on the entity's financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863, *Financial Instruments – Presentation* establishes standards for presentation of financial instruments and non-financial derivatives. These sections complement the principles of recognition, measurement and presentation of financial instruments of Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3865, *Hedges* and replace the presentation standards of Section 3861, *Financial Instruments – Disclosure and Presentation*.

Capital disclosures

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

Inventories

Section 3031, *Inventories* replaces Section 3030 of the same title and prescribes the basis and method for measuring inventories. It allows for the reversal of any previous write-down of inventories as a result of an increase in value. Finally, the section prescribes new requirements on the disclosure of the accounting policies adopted, carrying amounts, amounts recognized as an expense, the amount of any write-down and the amount of any reversal of a write-down.

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

3. Accounting policies

Accounting estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts recorded in the financial statements and notes to financial statements. Significant estimates in these consolidated financial statements relate to the valuation of accounts receivable, inventory, long-term assets, goodwill, store closing costs, income taxes as well as certain economic and actuarial assumptions used in determining the cost of pension plans and accrued benefit obligations. These estimates are based on management's best knowledge of current events and actions that the Company may undertake in the future. Actual results may differ from those estimates.

Principles of consolidation

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

Revenue recognition

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

Inventory valuation

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

Vendor rebates

The Company records cash consideration received from vendors as a reduction in the price of vendors' products and reflects it as a reduction to cost of goods sold and related inventory when recognized in the consolidated statements of earnings and consolidated balance sheets. Certain exceptions apply where the cash consideration received is either a reimbursement of incremental selling costs incurred by the reseller or a payment for goods or services delivered to the vendor, in which case the rebate is reflected as a reduction of operating expenses.

CONSOLIDATED FINANCIAL STATEMENTS

3. Accounting policies (continued)

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-term assets

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

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

Goodwill and non-amortizable trademarks

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

Non-amortizable trademarks are also tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the future undiscounted cash flows expected from the asset. The loss is determined by comparing the carrying value of the asset to its fair value. The fair value is based on discounted cash flows.

Other assets

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

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

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

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

Income taxes

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

Other long-term liabilities

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

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

Stock option plans

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

Foreign currency translation

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

Financial instruments

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

- > Cash is classified as a "financial asset held for trading" and is measured at fair value. All changes in fair value are recognized in earnings.
- > Accounts receivable, long-term loans and advances and redeemable preferred shares (included in investments) are classified as "loans and receivables" and are recognized at cost which, at initial measurement, corresponds to fair value. Subsequent revaluations of accounts receivable are recorded at amortized cost which generally corresponds to initial measurement less any allowance for doubtful accounts. Subsequent revaluations of long-term loans and advances and redeemable preferred shares are recognized at amortized cost using the effective interest method less any amortization.
- > Bank loans, accounts payable and accrued liabilities and the revolving credit are classified as "other financial liabilities". They are initially measured at fair value and subsequent revaluations are recognized at amortized cost using the effective interest method.
- > Long-term debt is classified as "other financial liabilities". With the exception of the revolving credit, long-term debt is measured at amortized cost, which corresponds to the initially recognized amount plus accumulated amortization of financing costs. The initially recognized amount corresponds to the principal amount of the debt less applicable financing costs. The adoption of this CICA Handbook recommendation in 2007 resulted in a decrease of \$4,824 in deferred financing costs (previously included in other assets), a decrease of \$4,870 in long-term debt and an increase of \$46 (\$31 net of future income taxes) in opening retained earnings.

3. Accounting policies (continued)

Financial instruments (continued)

- > The Company uses derivative financial instruments to manage foreign exchange risk. The Company does not use derivative financial instruments for speculative or trading purposes. The derivatives are classified as "liabilities held for trading" and are measured at fair value.
- > Transaction costs related to other financial liabilities are recorded as a reduction in the carrying amount of the related financial liability.
- > The Company records as a separate asset or liability only those derivatives embedded in hybrid financial instruments issued, acquired or substantially modified by the Company as of December 29, 2002 when these hybrid instruments are not recorded as held for trading and remained outstanding as at January 1, 2007. Embedded derivatives that are not closely related to the host contracts must be separated from the host contract, classified as a financial instrument held for trading and measured at fair value with changes in fair value recognized in earnings. The Company has not identified any embedded derivatives to be separated other than derivatives embedded in purchase contracts concluded in a foreign country and settled in a foreign currency that is not the conventional currency of either of the two principal parties to the contract. Although the payments are made in a foreign currency that is routinely used in the economic environment where the transaction occurred, the Company has decided to separate the embedded derivatives. The adoption of this CICA Handbook recommendation in 2007 resulted in an increase in current liabilities of \$2,382 and a decrease in retained earnings of \$2,382 (\$1,620 net of future income taxes) as at January 1, 2007. For the year ended December 30, 2007, this change resulted in an increase in earnings before interest, depreciation and amortization, income taxes and non controlling interest of \$4,219, an increase in net earnings of \$2,868 and an increase in net earnings per share and diluted net earnings per share of \$0.03.

Employee future benefits

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

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

- > The actuarial determination of the accrued benefit obligations for pension uses the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees;
- > For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- > Past service costs from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendments;
- > Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees. The average remaining service period of the active employees covered by the pension plans is 12 years (16 years at December 30, 2007);

- > The transitional obligation is amortized on a straight-line basis over a period of 10 years, which is the average remaining service period of employees expected to receive benefits under the benefit plan in 2000.

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

Earnings per share and information pertaining to number of shares

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

Fiscal year

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

Comparative figures

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

4. Inventory

For the year ended December 28, 2008, \$3,571,962 of inventory was expensed in the consolidated results (\$3,542,605 as at December 30, 2007). This amount includes an inventory write-down charge of \$46,752 (\$48,883 as at December 30, 2007).

5. Store closing costs

Exit and disposal costs and write-down of assets

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

	2008	2007
Lease obligations	\$4,231	\$ -
Inventory write-down	2,214	-
Termination benefits	277	-
Total recorded in earnings before the following items	6,722	-
Fixed assets write-down	2,857	-
Total costs	\$9,579	\$ -

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

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5. Store closing costs (continued)

Exit and disposal costs and write-down of assets (continued)

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

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

Other closing costs

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

6. Income taxes

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

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

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

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

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

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

7. Cash flow information

The changes in working capital items are detailed as follows:

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

8. Business acquisitions

During 2008, the Company acquired two companies (seven companies in 2007), operating in the corporate and franchised stores segment, by way of asset purchases (share and asset purchases in 2007). Taking direct acquisition costs into account, these acquisitions were for a total consideration of \$5,622 (\$253,704 in 2007). The Company financed these acquisitions from its existing credit facilities. The results of operations of these companies are consolidated from their date of acquisition.

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

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

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

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

9. Accounts receivable

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

10. Investments

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

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

11. Fixed assets

	2008			2007		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land and parking lots	\$ 170,279	\$ 16,359	\$153,920	\$ 166,386	\$ 11,871	\$154,515
Buildings	259,219	45,919	213,300	234,995	43,294	191,701
Leasehold improvements	187,360	85,146	102,214	174,231	67,198	107,033
Furniture and equipment	333,593	181,992	151,601	292,670	153,810	138,860
Computer hardware and software	213,563	127,057	86,506	166,544	105,665	60,879
Projects in process ^(a)	62,819	–	62,819	71,175	–	71,175
Land for future development	91,707	–	91,707	73,328	–	73,328
Assets under capital leases ^(b)						
Furniture and equipment	15,501	6,616	8,885	18,690	7,706	10,984
Computer hardware and software	21,252	16,570	4,682	21,372	12,928	8,444
	\$ 1,355,293	\$479,659	\$875,634	\$ 1,219,391	\$402,472	\$816,919

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

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

(b) During the year, the Company acquired \$2,743 (\$6,017 in 2007) of assets under capital leases.

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12. Fixed assets held for sale

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

13. Trademarks

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

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

14. Other assets

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

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

15. Credit facilities

a) Parent company and some subsidiaries

On October 6, 2006, the Company completed the refinancing of its credit facilities by way of a new agreement with a syndicate of lenders. The agreement provides for an unsecured, renewable credit facility of \$650,000. The premium on the base rate and borrowing costs varies in accordance with the credit rating assigned to the unsecured debentures. The facility is available until 2012.

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

The Company is required to meet certain financial ratios. At December 28, 2008 and December 30, 2007, the Company is in compliance with these requirements.

The Company has also set up an unsecured credit facility up to an amount of \$55,000, utilized for the issuance of letters of credit for imports. The terms and conditions to be respected are the same as for the revolving credit. At December 28, 2008, the amount used is \$31,258 (\$29,493 in 2007).

b) Other subsidiaries

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

c) Joint ventures

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

16. Long-term debt

	2008	2007
Revolving credit, weighted average rate of 4.5% (5.5% in 2007) (Note 15)	\$ 39,789	\$160,200
Debentures, unsecured, rate of 5.4%, due in 2016 ^(a)	396,182	395,821
Mortgage loans, secured by assets having a depreciated cost of \$58,557 (\$43,069 in 2007), rates varying from 1.68% to 7.95% (5.1% to 10.0% in 2007) maturing on various dates until 2017	37,524	32,512
Obligations under capital leases, rates varying from 0% to 12.4% (2.9% to 12.4% in 2007), maturing on various dates until 2016	11,058	15,317
Balances of purchase prices, varying from prime less 1% to 5%, payable on various dates until 2010	5,618	27,926
Shares issued and fully paid 4,000,000 Class D preferred shares (5,000,000 shares in 2007) ^(b)	4,000	5,000
	494,171	636,776
Instalments due within one year	15,696	34,239
	\$478,475	\$602,537

(a) Effective rate of 5.5%

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

16. Long-term debt (continued)

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

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

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

17. Other long-term liabilities

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

18. Guarantees, commitments and contingencies

Guarantees

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

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

Pursuant to the terms of inventory repurchase agreements, the Company is committed towards financial institutions to buy back the inventory of certain customers at an average of 62% of the cost of the inventories to a maximum of \$66,894. In the event of recourse, this inventory would be sold in the normal course of the Company's operations. These agreements have undetermined periods but may be cancelled by the Company with a 30-day advance notice. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low.

Commitments

The Company has entered into lease agreements expiring until 2018 which call for lease payments of \$74,366 for the rental of automotive equipment, computer equipment, distribution equipment, a warehouse and the building housing the head office and the distribution centre in Quebec.

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

As part of the operation of big-box stores with dealer-owners, the Company is initially involved as a primary tenant and then signs a subleasing agreement with the dealer-owners. In this respect, the Company is committed under agreements expiring until 2023 which call for minimum lease payments of \$92,764 for the rental of premises and land on which the Company erected a building. In consideration thereof, the Company has signed subleasing agreements totalling \$92,012.

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

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

Contingencies

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

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

19. Capital stock

Authorized

Unlimited number of shares

Common shares

Class A preferred shares, issuable in series

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

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

Class C preferred shares, issuable in series

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

Class D preferred shares, 4% cumulative dividend, redeemable at their issue price. Beginning in 2003, these shares are redeemable at their issue price over a maximum period of ten years on the basis of 10% per year (Note 16)

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19. Capital stock (continued)

Issued and fully paid:

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

	December 28, 2008		December 30, 2007	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	115,412,766	\$ 418,246	114,935,569	\$ 413,542
Issuance in exchange for common share subscription deposits	197,854	3,349	120,715	2,513
Issuance under stock option plans	89,000	309	339,327	1,876
Issuance in exchange for cash	120,079	1,573	17,155	315
Balance before elimination of reciprocal shareholdings	115,819,699	423,477	115,412,766	418,246
Elimination of reciprocal shareholdings	(72,396)	(435)	(70,319)	(401)
Balance, end of year	115,747,303	423,042	115,342,447	417,845
Deposits on common share subscriptions, net of eliminations of joint ventures ^(a)		3,744		3,349
		\$ 426,786		\$ 421,194

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

Stock option plan of May 1, 2002

The Company adopted a stock option plan for designated senior executives which was approved by the shareholders on May 1, 2002. A total of 2,920,000 options were granted at that date. Options granted under the plan may be exercised since the Company made a public share offering on November 5, 2002. The Company can grant options for a maximum of 3,740,000 common shares. As at December 28, 2008 the 2,920,000 options granted have an exercise price of \$3.47 and of this number, 1,538,500 options (1,449,500 options as at December 30, 2007) were exercised.

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

No compensation cost was expensed with respect to this plan for the years ended December 28, 2008 and December 30, 2007.

Stock option plan of October 24, 2002

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

On March 8, 2007, the Board of Directors approved certain modifications to the plan. These modifications, approved by the shareholders at the annual shareholders' meeting on May 8, 2007, establish that this plan is no longer applicable to the designated directors of the Company and provide for the replacement of the terms and conditions for granting options under the plan by a more flexible mechanism for setting the terms and conditions for granting options. The Board of Directors will adopt the most appropriate terms and conditions relative to each type of grant. For the options granted on March 8, 2007, February 29, 2008 and December 9, 2008, the Board approved the option grants with vesting over a four-year period following the anniversary date of the grants at 25% per year.

19. Capital stock (continued)

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

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

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

Compensation cost expensed with respect to this plan was \$1,518 for the year ended December 28, 2008 (\$2,082 as at December 30, 2007).

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

	December 28, 2008		December 30, 2007	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of year	2,922,552	\$ 11.31	3,162,479	\$ 10.16
Granted	258,200	13.99	196,000	23.58
Exercised	(89,000)	3.47	(339,327)	4.88
Forfeited	(110,750)	20.07	(96,600)	20.94
Balance, end of year	2,981,002	11.46	2,922,552	11.31
Options exercisable, end of year	1,965,569	\$ 7.22	2,011,194	\$ 6.70

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

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

20. Capital disclosures

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

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

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

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

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

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21. Financial instruments

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

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

(a) See methods and assumptions below

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

- > The fair value of accounts receivable and accounts payable and accrued liabilities is comparable to their carrying amount, given the short maturity periods;
- > The fair value of loans and advances, substantially all of which have been granted to dealer-owners, has not been determined because such transactions have been conducted to maintain or to develop favourable trade relationships and do not necessarily reflect terms and conditions which would have been negotiated with arm's length parties. Moreover, the Company holds sureties on certain investments which provide it with potential recourse regarding the operations of the dealer-owners in question;
- > In prior years, there was little difference between the fair values and carrying amounts of bank loans and long-term debt bearing interest at rates that varied in accordance with market rates. However, due to the state of the financial markets, notably the current credit situation, the fair value of long-term debt could be lower than its carrying amount. The Company is unable to identify similar debt in the market, including current transactions, having substantially the same terms and conditions to permit an adequate measurement of the fair value of the debt. Management is of the opinion that the time and costs involved greatly exceeds the benefit of disclosing fair value and consequently fair value has not been determined;
- > The fair value of debentures was determined using market prices;
- > The fair value of 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:

	2008	2007
Interest on accounts receivable	\$ (2,603)	\$ (2,978)
Interest on long-term loans and advances	(3,466)	(2,885)
Dividends on redeemable preferred shares	(29)	(82)
Interest on cash and bank loans	2,134	3,329
Interest on long-term debt	28,106	28,270
Loss (gain) on fair value of derivative financial instruments	846	(3,738)

Credit risk

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

21. Financial instruments (continued)

Credit risk (continued)

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

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

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

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

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

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

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

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

Interest rate risk

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

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

Exchange risk

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

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

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

Liquidity risk

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

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22. Employee future benefits

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

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

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

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial valuations are performed on defined benefit plans for funding purposes every three years. One of the plans was valued as at December 31, 2006 and the others were valued as at December 31, 2007. The next actuarial valuations for funding purposes will be as at December 31, 2009 and December 31, 2010, respectively.

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

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

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

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

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

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

23. Information on joint ventures

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

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

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

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

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

24. Segmented information

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

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

	2008	2007
Segment sales^(a)		
Corporate and franchised stores	\$3,741,748	\$3,688,966
Distribution	2,357,209	2,327,302
Total	6,098,957	6,016,268
Intersegment sales and royalties^(a)		
Corporate and franchised stores	–	–
Distribution	(1,207,835)	(1,231,162)
Total	(1,207,835)	(1,231,162)
Sales^(a)		
Corporate and franchised stores	3,741,748	3,688,966
Distribution	1,149,374	1,096,140
Total	4,891,122	4,785,106
Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest^(a)		
Corporate and franchised stores	416,940	432,678
Distribution	99,141	97,677
Total	516,081	530,355
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest^(a)		
Corporate and franchised stores	299,998	324,305
Distribution	77,103	75,902
Total	377,101	400,207
Acquisition of fixed assets		
Corporate and franchised stores	159,508	242,297
Distribution	41,832	28,857
Total	201,340	271,154
Goodwill		
Corporate and franchised stores	7	138,324
Distribution	–	–
Total	7	138,324
Total assets		
Corporate and franchised stores	2,114,290	2,129,570
Distribution	391,883	352,876
Total	\$2,506,173	\$2,482,446

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

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25. Earnings per share

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

	2008	2007
Net earnings	\$ 160,199	\$ 185,089
Number of shares (in thousands)		
Weighted average number of shares used to compute basic net earnings per share	115,643.6	115,289.2
Effect of dilutive stock options ^(a)	1,060.1	1,447.4
Weighted average number of shares used to compute diluted net earnings per share	116,703.7	116,736.6
Net earnings per share - basic	\$ 1.39	\$ 1.61
Net earnings per share - diluted	\$ 1.37	\$ 1.59

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

26. Effect of new accounting standards not yet implemented

Goodwill and intangible assets

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

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

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

International Financial Reporting Standards (IFRS)

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



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Vice President
Logistics
- 3 Pierre Dandoy**
Executive Vice President
Retail Operations
- 4 Daniel Ducharme**
Senior Vice President
Information Technologies
- 5 Normand Dumont**
Executive Vice President
Merchandising
- 6 Robert Dutton**
President and Chief Executive Officer
- 7 Claude Guévin**
Executive Vice President and
Chief Financial Officer
- 8 Paul Jovian**
Senior Vice President
Supply Chain Management
- 9 Christian Proulx**
Senior Vice President
People and Culture
- 10 Michèle Roy**
Vice President
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- 11 Marie-Claude Soucy**
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- 12 Michael Storfer**
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Key Dates

Fiscal year-end: December 27, 2009

Quarterly earnings results release dates

First Quarter: May 12, 2009
Second Quarter: August 11, 2009
Third Quarter: November 10, 2009

Annual General Meeting:

April 22, 2009 at 11:00 a.m. (Eastern Time)

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PRESIDENT AND CEO

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