

RONA

2006 ANNUAL REPORT

GROWING STRONG



RONA



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ANDRÉ H. GAGNON



642 points of sale
from the Pacific to the Atlantic

72 big-box stores

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



326 Proximity stores

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



228 Specialized – Consumer stores

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



16 Specialized – ICI branches

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



A STRONG NETWORK WITH A UN

51 **43** **5**

BRITISH COLUMBIA

Big-box	5
Proximity	26
Specialized – Consumers	16
Specialized – ICI*	4

ALBERTA

Big-box	6
Proximity	27
Specialized – Consumers	10

SASKATCHEWAN

Big-box	
Proximity	
Specialized – Consumers	

* Institutional, Commercial and Industrial

7 Distribution Centres

Boucherville, Quebec	900,000 sq. ft.
Terrebonne, Quebec	380,000 sq. ft.
Dorval, Quebec	40,000 sq. ft.
Halton Hills, Ontario	90,000 sq. ft.
Calgary, Alberta	320,000 sq. ft.
Calgary, Alberta	110,000 sq. ft.
Surrey, British Columbia	85,000 sq. ft.
Total	1,925,000 sq. ft.

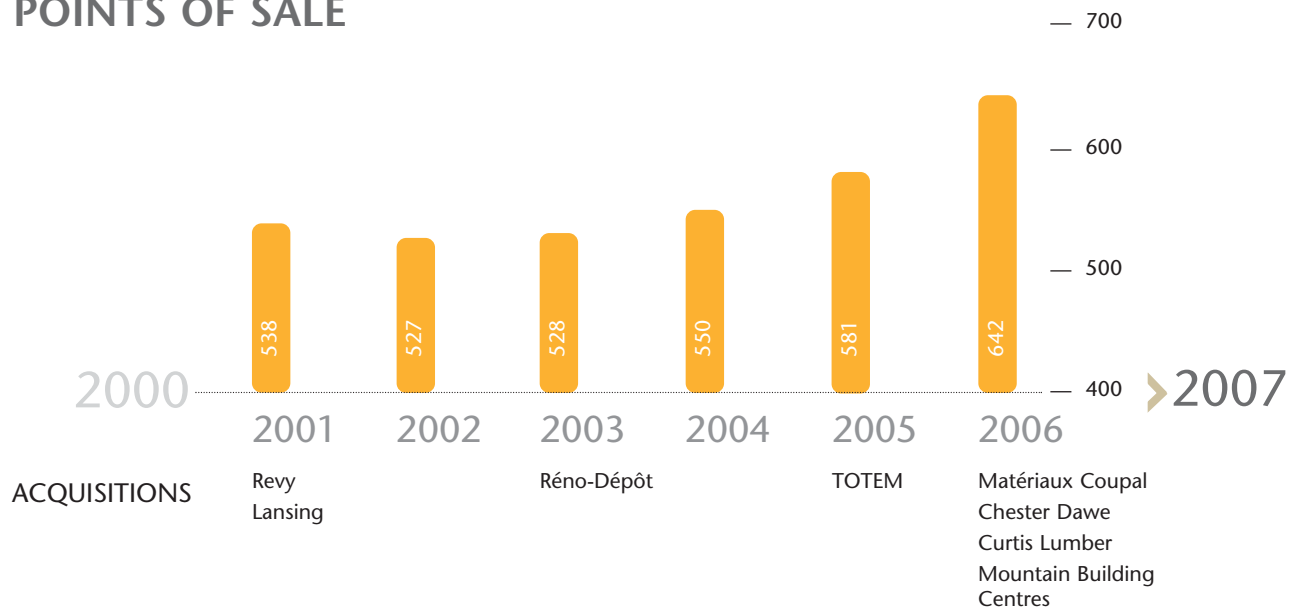


Boucherville Distribution Centre

DIAGNOSTIC: UNIQUE COMBINATION OF STORES ACROSS CANADA



POINTS OF SALE



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.

RONA is:

- more than **26,000** of our people hard at work, driven by the commitment to satisfy the needs of all our customers—from do-it-yourselfers to home renovation professionals;
- a network of **642** stores in different formats—from big-box to proximity and specialized;
- **18** retail banners recognized across the country in the home hardware, renovation and gardening markets;
- more than **14** million square feet of retail space devoted to selling the greatest possible variety of products;
- **7** distribution centres relying on the latest generation technologies for inventory management and offering top-flight service to all our dealers.

Our Values

SERVICE

Customer service is the top priority for RONA and our employees. This unconditional commitment to serve is both our reason for being and the key to our shared success.

UNITY

Unity is our founding principle. At RONA, we're all part of the same team. Our common goal is to offer the best possible shopping experience to each and every customer.

RESPECT

The working conditions we provide illustrate the respect we have for our employees. It's also shown in the resources we invest in developing our people and in the care and attention we give all employees, customers, shareholders and business partners.

SEARCH FOR THE COMMON GOOD

At RONA, the search for the common good allows us to join forces with people and businesses that believe in the benefits of working together and who accept

the rules of doing so. We are always guided by the common interests of our employees, customers, shareholders, suppliers and other partners.

SENSE OF RESPONSIBILITY

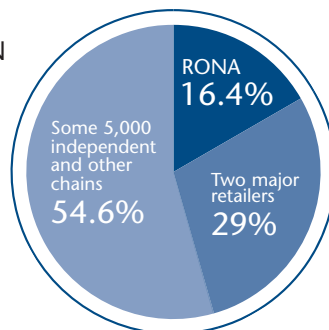
At RONA, everyone is encouraged to take initiative in any way they can to contribute to the company's success. By fostering a solid sense of responsibility in every employee, we ensure that our human resources grow with us.

HIGHLIGHTS OF THE YEAR



**\$35 BILLION CANADIAN
HARDWARE-RENOVATION
MARKET***

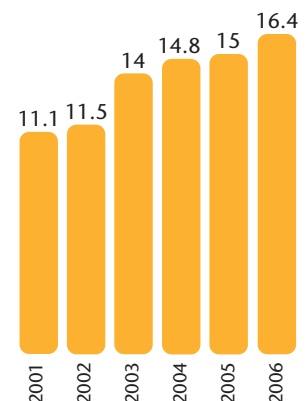
(market share)



* Industry sources and management estimates

**RONA'S
MARKET SHARE
IN CANADA**

(%)



CONSOLIDATED FINANCIAL HIGHLIGHTS

Years ended December 31, 2006, December 25, 2005 and December 26, 2004
(in thousands of dollars, except earnings per share and shares outstanding)

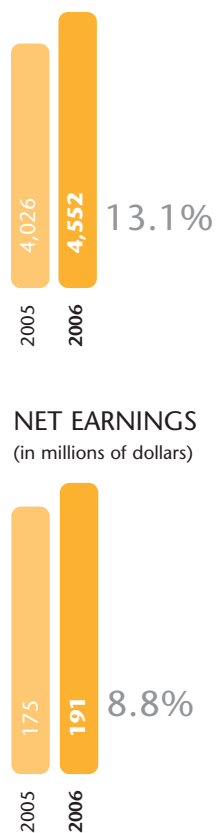
	2006	2005	2004
Operations			
Sales	\$ 4,551,936	\$ 4,026,424	\$ 3,625,866
Operating income (EBITDA)	383,882	333,604	278,351
Net earnings	190,584	175,210	138,225
Earnings per share*	1.66	1.53	1.22
Diluted earnings per share*	1.64	1.51	1.20
Shareholders' equity	\$ 1,134,366	\$ 936,184	\$ 752,695
Common shares			
Outstanding at year-end	114,935,569	114,412,744	113,957,270

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

Note: Fiscal 2006 had 53 weeks versus 52 weeks in 2005 and 2004. The comparative sales figures have been adjusted to reflect the application of EIC-156, *Accounting by a Vendor for consideration given to a customer* (volume rebates)

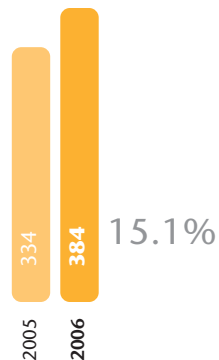
SALES

(in millions of dollars)



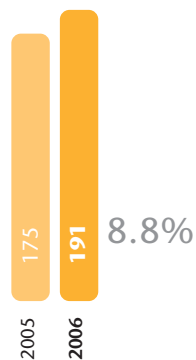
EBITDA

(in millions of dollars)



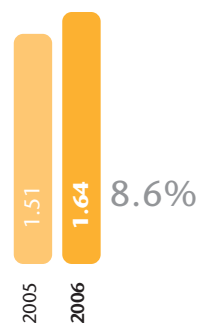
NET EARNINGS

(in millions of dollars)



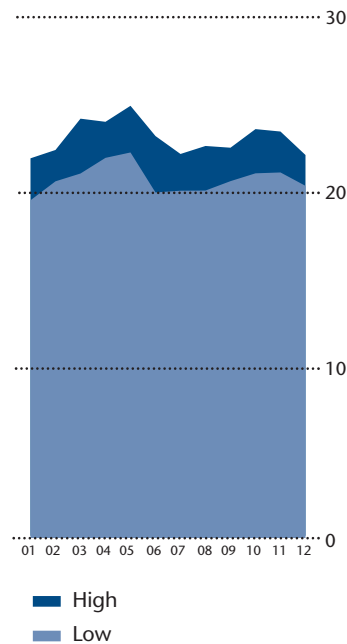
DILUTED EARNINGS PER SHARE

(in dollars)



STOCK INFORMATION 2006

Stock price of RONA (TSX: RON)
(in dollars)



Message from management

GROWING INTO THE FUTURE



MANAGEMENT TEAM (from right): **Robert Dutton**, President and Chief Executive Officer; **Claude Guévin**, Executive Vice-President and Chief Financial Officer; **Normand Dumont**, Executive Vice-President, Merchandising; (standing) **Claude Bernier**, Executive Vice-President, Proximity and Specialized Stores; **Linda Michaud**, Senior Vice-President, Information and Technology; **Michael Brossard**, Senior Vice-President, Marketing; (standing) **Denis Caron**, Senior Vice-President, People and Culture; (standing) **Pierre Dandoy**, Executive Vice-President, Big-Box Stores; **Michèle Roy**, Vice-President, Communications and Public Affairs; and **Gilbert Nolasco**, Vice-President, Integration. Missing from the photo is **Pierre Pelletier**, Vice-President, Logistics.

In 2006, for the 16th consecutive year, we increased our net earnings and our earnings per share, which rose to \$1.66. Our sales increased by 13.1% and our operating margin was also up. Our return on shareholders' equity stands at 18.5%.

These results are very satisfactory considering that Canadian economic growth and consumer confidence have slowed over the year, especially east of Manitoba, where we generate a little over half of our sales.

Even without compensating for current economic conditions, the year was a solid indication of a very promising future. As of February 20, 2007, our network has added 61 points of sale representing more than one million square feet of retail sales space.

This growth is in line with our 7-07 Program, which aims to achieve \$7 billion in annual retail sales network-wide by the end of the 2007 financial year, an increase of \$2 billion,

or 40%, in just two years, supported by our four vectors of development: same-store sales growth, construction of new stores, recruitment of new affiliate dealer-owners and acquisitions.

Midway through the 7-07 Program, we have reached nearly 50% of our goal. And not only are we meeting our timeline but every one of our four development vectors is also contributing to our success.

True value is what lasts

Beyond these short-term results for the year, we also laid the foundations for value creation over a longer horizon for our shareholders, affiliate dealer-owners, employees and, of course, our customers.

In RONA culture, the only true value is lasting value. Short and long term are not opposites. On the contrary, they are intimately linked. Because everything we do today is likely to have repercussions in five or ten years, or even further into the future. So we have to keep our eyes fixed on our long-term horizon. This isn't a choice – it's a strategic imperative. On the other hand, we'll never manage to create long-term value if we don't act today. The urgency of acting now to achieve our long-term goals is another strategic imperative.

It's important to clearly differentiate between what belongs to the short term and what belongs to the long term. While economic fluctuations dictate the management of certain variables, such as inventory and the number of part-time employees to hire, they should never affect major strategic decisions like new store construction or acquisitions. Nor

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should they mask the strategic dimension of so-called "tactical" decisions: despite the risks of the economic environment, we have decided to keep resources in the stores – including staff and inventory – in sufficient

quantity to provide full services to our customers. Otherwise our brand capital will erode and with it the long-term value of the business. Because even very short-term adjustments have dimensions that transcend the current economic climate.

We like to say that no matter how buoyant the economy seems we always manage RONA as if we were in a recession. This philosophy – reflected by our constant cutting back on waste and our never-ending search for better practices – is one of the factors that explains why our operating margin has increased every year for the past 12 years. And at the same time, it's also true that during slow times things are often gearing up for periods of accelerated growth.

Trends looking promising

In fact, despite short-term ups and downs, the long-term growth of the market we serve is rooted in a solid structural base.

Take Canadian housing stock: about 70% of the current housing stock in Canada is over 20 years old and 85% is over 10 years old. These buildings need upkeep. Sooner or later, they'll need major renovations. Some jobs may be put off for a while, but homeowners can't afford to ignore them forever.

Take national demographics: today Baby Boomers make up 25% of the total population of Canada. They own many of these aging homes. This generation of Canadians enjoys financial health, physical health and a much longer life expectancy than any generation before. As Baby Boomers approach retirement and their children leave the family nest, their accommodation needs change. This structural trend leads to housing resales and renovation expenses. Over the last five years, there were over three million new owners in Canada – and every new owner means renovations.

The basis for market growth is also cultural. Home renovation and gardening are amongst Canada's favourite hobbies. Nearly 70% of Canadians call themselves do-it-yourselfers. And what used to be just a lawn to mow has now become a garden, a playground for adults and a means of creative expression for people who feel the need to get back in touch with nature.

Opportunities for the taking

These dynamics don't mean the rate of growth can't change. Our sector is dependent on the economy as a whole and it reflects economic cycles.

But when strong trends support growth, as they do in our sector, even downturns can have a silver lining. A downturn is an opportunity to take forward-looking action: for example, inflationary pressure may ease the cost of developing new sites, and independent dealer-owners may be more inclined to join a solid, innovative group like ours that has money to invest. Especially since we're the only organization that offers two choices for integration: acquisition and recruitment.

As Baby Boomers approach retirement and their children leave the family nest, their accommodation needs change. This structural trend leads to housing resales and renovation expenses.

When this report was published, the Canadian economy was strong overall, especially in the raw materials industries and all upstream sectors, as evidenced by extremely rapid growth in the Western Provinces. But last year we saw early signs of a slowdown in the manufacturing sector, and, by extension, in the regions that rely on these industries. Growth slowed in industrial zones in Ontario and Quebec, especially metropolitan Toronto and Montreal.

These cyclical variations cannot dictate our development strategy, however. Despite a temporary slowdown in growth in some regions, our development is still marching to the beat of the 7-07 Program. Looking at the longer-term horizon, it's already clear that we can create lasting value by working with our four development vectors. We just have to determine how far to extend our operations into the territories and segments adjacent to our current market. A realistic evaluation of this issue will determine our growth potential for the next few years.

Opportunities for creating

RONA concluded a number of acquisitions in 2006, including Matériaux Coupal, Chester Dawe, Curtis Lumber and Mountain Building Centres. These four businesses all draw a large portion of their revenues from the specialized construction materials market.

Once the required approvals are obtained, the acquisition of Noble Trade, an important plumbing wholesaler, will allow us to speed up our specialized stores development.

While our traditional hardware/renovation stores mainly serve a retail clientele, the specialized stores the company recently acquired mainly serve Institutional, Commercial and Industrial (ICI) clients. These specialized stores are in a period of consolidation in Canada and this market segment is twice larger than the traditional market segment, which means it offers very attractive development potential.

The segment is made up of distributors and wholesalers, and this was RONA's original calling, one we continue to practice for our affiliates. We definitely have the skills to serve this market, especially in terms of logistical expertise and readily available products to satisfy professional needs. Add the experience and know-how of the managers and experts in our specialized stores and we have everything we need to become a leader in the specialized ICI segment in Canada.

That said, we will continue to take action to strengthen our leadership position in our traditional retail hardware/renovation market.

This report includes a summary of the progress we made in our 7-07 Program during the year, outlining how our four development vectors complement each other to create a dynamic and robust development strategy that focuses on the long term and on creating lasting value, while leaving room for adjustments to optimize our trajectory.

RONA's success: 26,000 strong

Our success relies on a clear vision, centered on listening to our clients. It relies on simultaneously managing several complementary sources of growth, which are set out in our 7-07 Program. It relies on disciplined execution that doesn't gloss over the small stuff. It relies on detail.

Our success is the result of the 26,000 employees who make RONA, our distribution centres and our network of stores happen, day after day. We really owe our success to them. On behalf of RONA management, board of directors, customers and shareholders, we extend our very warmest thanks.

Finally, we want to express our appreciation for the members of our board of directors. They keep us motivated both with their demands and their support.



Robert Dutton
President and Chief Executive Officer

FOUR DRIVERS FOR GROWTH

Progress towards the company's most ambitious target underscores the value of a unique business model.

This structure allows the company to have four separate ways of increasing revenues.

RONA's ability to meet this aggressive goal (roughly 20% annual growth) starts with the diversity of its business model. This structure is unique in the hardware and home renovation industry and allows the company to have four separate, but integrated, ways of increasing revenues.

In 2005, RONA affirmed a bold growth objective for the following two years. Dubbed as Project 7-07, the challenge was to grow from \$5 billion in annualized network retail

sales (annualized combined sales of corporate, franchised and affiliated RONA stores regardless of ownership) at the time to \$7 billion by the end of 2007. In other words, the addition of \$1 billion in sales each year.

With a year to go, the company is on track at nearly 50% of its target achieved.

These are termed RONA's "Four Vectors of Growth" and they are:

- > **COMPARABLE SALES**
The year-over-year increase in sales of comparable stores
- > **NEW STORE CONSTRUCTION**
The construction of new corporate and franchise stores
- > **RECRUITMENT**
The addition of affiliate dealer-owners to the RONA banner
- > **ACQUISITIONS**
The purchase of compatible businesses

It is challenging to manage, but RONA's structure gives it a powerful edge.

This year's annual report reviews RONA's achievements and immediate plans through the lens of each of these four growth strategies. We hope it will contribute to a better understanding of the unique positioning of the company in the current market.

COMPARABLE SALES



FOCUS IS ON THE CUSTOMER

Despite a general slowdown, RONA continues to record growth.

Sales performance from one year to the next for exactly the same store – known as same-store sales – is a bellwether reference in the retail industry. It is a performance indicator as well as a measure of the impact of the general economy or other external influences.

Many retailers, RONA among them, view a slightly wider horizon. They use the term comp, or comparable, store sales. This is essentially the same but includes the impact of in-store renovations, expansion or relocation within the same market area.

Comparable sales growth is still revenue growth with limited capital investment, producing either more customer feet in the store or higher sales per customer.

RONA has led the industry in comparable sales growth for most of the current decade. In 2006, a year marked by a less buoyant economy, very diverse regional consumer environments and a lowering of lumber prices, it at least held its own.

“The needle didn’t move much,” acknowledges Claude Bernier, Executive Vice-President, Proximity and Specialized Stores. “Our comparable store sales did increase, not quite up to our expectations, but we continue to outpace our competition.”

Comparable sales growth was stronger in western than in eastern Canada, particularly in Ontario. Growth for the entire network was 1.3%, taking into consideration deflation in lumber prices.

RONA’s strategies for growing comparable sales are centered on improving the customer experience by offering a higher level of service and innovative merchandizing. Activities in 2006 included the following:

Store renovations

A program of continual upgrade is applied to keep up with the increasingly selective and sophisticated taste of consumers. In 2006, RONA maintained its store renovation program with the objective of renewing about 20% of its network annually and implementing the most consumer-friendly concepts.

The in-store upgrade program is particularly appealing to women shoppers, helping to make RONA a destination of choice for this important group. A feature of all renovated stores is the RONA boutique concept which has strong appeal to women.

Increasingly, customer service is competing with convenience and pricing as the primary reasons for the shopper selecting a store.





RONA has created three style "families" to reflect different tastes and lifestyles. Two of the styles, applied here to bathrooms, are Global Village (left) and Oasis.

Innovative merchandizing

Fundamental to growing same store sales is attractive merchandizing.

RONA was an early leader in creating big-store layouts to present products in boutiques (paint, decor, flooring, etc.). This has since become a feature of the new-generation Proximity Store launched in 2005.

The concept makes it easier to shop for, and compare, renovation components. This ease of access has helped to raise the percentage of women shoppers in our big-box stores. Research indicates that women play an important role in decision making in 94% of Canadian households.

RONA by Design

Early in 2007, the company launched RONA by Design, an exciting, new concept in the home renovation and decorating category. Consumer research indicated customers have a strong desire to renovate their homes to reflect the latest design and style trends, but lack the time and knowledge. Working with a noted interior designer, RONA created three styles that reflect different tastes and lifestyles for today's consumers. They are Global Village, Oasis and Spirit.

RONA by Design will be applied in 2007 to nine projects, which began with the launch of three bathroom themes February 14th.

Photos and a list of fixtures and accessories in each theme grouping quickly informs a shopper how the completed project can look and how much it might cost.

Starting in early Spring, customers will be offered a project guide who will help them to select and finalize their material choices and will remain available for any advice and help during completion of the project.

Marketing

If merchandizing puts the right product in the customer's hands, marketing puts her in the right store to start with.

RONA's powerful marketing capability contributes both long and short term impetus to growth (see also "Enabling Our Growth"). Initiatives giving direct support to the growth of comparable sales included:

- > A national flyer program which reached 250 million copies in 2006.
- > The RONA gift card, launched late in 2005, which generated high interest and additional sales in its first full year.
- > Action-oriented advertising campaigns which included "Run to RONA" special promotions and "It pays to renovate" campaigns supporting the RONA Gift Card.
- > Continued popularity of the Air Miles™ card, now used by 70% of Canadian households, which increased customer loyalty.
- > Financing options through the RONA credit card, which are arranged with the Desjardins Accord program.





RONA plans to make its brand the Number One paint in Canada.

RONA branded products

A subset of the \$7 billion in 2007 objective was to grow sales of RONA branded products to 15% of the retail total. This, too, is on track, with 344 products added in 2006.

Private label products create several benefits. They enhance an image of corporate know-how and expertise, they represent an assurance of quality to the customer, and they generally return a bigger gross margin to the store and they develop customer loyalty.

RONA's private label program dates back to 1993 and is one of the largest in the industry with 2,200 RONA branded items. Paint is a major segment of the private label offering and the goal is to make RONA paint the No. 1 selling brand across Canada. The company has developed four paint brands behind the flagship RONA Collection label of high end products.

Supply Chain Optimization

A priority of 2006 for many of the company's operating units was a major overhaul of the supply chain.

Although the impact of Supply Chain Optimization tends to be mostly on profitability, top-line revenues are significantly affected by product availability. In 2006, RONA's organic growth was supported by improved fill rates and fewer stock-outs resulting from the first year of the supply chain overhaul (see page 18 "Enabling the Growth").

Priority on Service

Providing a knowledgeable project guide in the RONA by Design program is the latest step in a journey to make RONA service a powerful reason for loyalty. Increasingly,

customer service is competing with convenience and pricing as the primary reasons for the shopper selecting a store and the company sees it as the key differentiation factor in the future.

The company's focus on service addresses three main service needs: product knowledge, support for the sale and attitude.

In 2006, product training reached the majority of fulltime staff in corporate stores through the IC4 interactive training capability. The three-year old program – which is unique in the industry – provides product knowledge in a self-serve mode by means of personal computers (PC) on site. Close to 20,000 people are accredited to the training and over 190,000 sessions were screened in the last 12 months.

Demographic trends suggest that retiring Baby Boomers, after indulging themselves in home renovations, will mature into a "do-it-for-me" mindset. If so, RONA will be in position with a program of Installation Services.

The Installation Services program was introduced in 2005 to support the sale of items such as doors, windows and flooring. Today's customers are found to be often short of time and eager for installation help. Across the network, the program provides RONA-certified professionals to complete product installations with a performance guarantee.

The company's focus on employee attitude and motivation is core to its clearly defined culture. It is intensely engaged in making a very high standard of personal service a hallmark of the RONA experience.

Each year, senior management tours the network across the country to update employees and re-inforce the RONA culture. In 2006, spending on staff training was increased by 10% and service has been made a component of performance evaluation.

NEW STORE CONSTRUCTION



Pierre Dandoy, (centre), Executive Vice-President, Big-Box Stores, talks with Michael Rushton, (left), Vice-President, Big-Box Stores, Ontario and Mario St-Louis, Vice-President, Big-Box Stores, Quebec, in the RONA l'Entrepôt store at Charlemagne, north of Montreal.

SEEKING THE PERFECT STORE

Each new store embodies valuable lessons learned from the last.

RONA has been particularly successful in evolving a flexible store environment that maximizes both business efficiency and shopper satisfaction. It has been able to do it in a variety of formats and sizes.

RONA opened eight such stores in 2006 and intends to build another 15 in 2007, adding a total of more than two million square feet to the retail network. Despite signs of economic slowdown, new store construction is a strategic priority in the company's growth plan.

"We consider the capital commitment very carefully," acknowledges Claude Guévin, Executive Vice-President and Chief Financial Officer. "The big advantage of new construction is tailoring the store to the immediate market and making each one even more attractive and efficient than the last".

These stores are bright, spacious, friendly, sized according to their surrounding population and packing a broad, but tightly focused, variety of products.

Two thirds of the new stores in 2007 will be big-box formats of 70,000+ square feet. Given the very competitive nature of this segment, RONA has acquired prime sites over the past few years and is now aggressively building on them.

Management put the Proximity format head-to-head with the big-box competition in several markets and is pleased with the result.

"There are not that many opportunities left in Canada for big-box stores so we are acting on them first," says Guévin.

"Where the action is really going now is to the smaller community shopping centres and here we have a distinctive competitive advantage. Because of our flexibility and strong image in the marketplace, we're a popular partner with developers."

The lynchpin of RONA's offering in the new centres is the new generation 52,000 square foot Proximity Store which it pioneered two years ago and which it has steadily refined since. In a relatively small footprint, the concept emulates the choice of products available in big-box stores and features bright, shopper-friendly layouts.



A new RONA Home & Garden store opened in Winnipeg last July.



A new big-box concept was launched in 2006; it was first applied to the new Réno-Dépôt store in Rimouski.

Went head-to-head

RONA sees this format as a prime competitor going forward. Management purposely put the Proximity format head-to-head with the big-box competition in several market and is pleased with the result.

RONA is also targeting the small and medium contractor with a strong and efficient lumber yard in the Proximity format.

Launch of an innovative big-box concept

RONA offers to its customers a network of stores presenting a variety of size and concepts. This diversified network allows us to better serve our customers by reaching them where they are and how they want.

After designing a new proximity store concept in 2005, RONA innovated once more and launched in 2006 an innovative big-box concept, which was first applied to the new Réno-Dépôt store in Rimouski.

This concept re-examines all the strategic points of contact with the consumer, namely the store, the signage, the store's way of doing things, its advertising campaigns and its flyers, with a view to building on the strengths of a proven formula that focuses on competitive pricing, a vast selection of items, product category depth and a fast, efficient shopping experience. This new concept also involves a larger number of open areas, a more shopper-friendly product layout, redefined lighting and a new, clearer signage.



RECRUITMENT



Claude Bernier (third from left), Executive Vice-President, Proximity and Specialized Stores, meets with members of his team. From left: **René Cloutier**, Senior Director Operations, Franchised stores Quebec, Proximity and Specialized stores; (standing) **Pat Bennett**, Vice-President, Operations Centre, Proximity and Specialized stores; **Claude Bernier**; (standing) **Gordon Kennedy**, Senior Director, Operations, Chester Dawe; **Jim Ramsden**, Senior Director, Operations, Totem; **Serge Vézina**, Senior Director, Traditional banners and Development; and **Ken Castronovo**, Senior Director, Operations West, Proximity and Specialized stores.

MORE DEALERS WARM TO RONA

RONA's way of doing business has attracted over 100 dealers worth more than \$550 million in retail sales.

Another strategy for growth is the recruiting of independent dealer-owners to the RONA banner. Success here does more than feed the numbers; it is a reflection of the company's image in the market and the desirability of partnership.

On both levels, the Recruitment program is a striking success. Since 2003, the company has recruited 105 dealers to its banner, adding over half a billion dollars in retail sales and over a million square feet of space to the network – all at no capital cost (see table page 14).

RONA expects to recruit another \$200 million in annualized retail sales in 2007. It believes the economic tightening which is damping down same-store sales is likely to encourage more movement among small owners seeking solutions. RONA is the only industry leader to offer these owners the tools to compete and make their business grow in any market.

It is a big pool of opportunity. Industry estimates place the number of independents at slightly less than 5,000 in Canada, representing 54.6% of the market. One third of these are expected to disappear because of a lack of a succession plan while the two-thirds who will remain in the market will do so through superior business planning and vision – for which many turn to RONA.

RONA is the only major consolidator in the Canadian market – a market in which independents are under more pressure each year.

"Dealers come with us for two reasons," says Claude Bernier, Executive Vice-President, Proximity and Specialized Stores. "They know we have a clear vision and a solid business plan for the future. And they know we have the best package to help them grow their business."

Besides the purchasing leverage that comes with network retail sales of close to \$6 billion and membership in a major, \$28 billion global purchasing organization called A.R.E.N.A., the RONA package offers tools for store and employee administration, efficient information technology, a cutting edge marketing program, a highly refined distribution and logistics network as well as training and motivational tools.

"Every tool developed for our corporate stores becomes available to the independent RONA stores," says Bernier.



This new 105,000 square-foot RONA Home & Garden store in Langford B.C. was the second of three opened across the country in a span of seven days last July.

Team helps new dealers

The company also allocates an integration team to bring new dealers rapidly up to speed with the RONA way of doing business.

RONA has capitalized to the full on its unique strategic flexibility to manage multiple store formats and sizes in its network. Its 642 stores (as at February 20, 2007) range in size from 165,000 square feet to corner-store layouts of 2,000. As a result, it is the only major consolidator in the Canadian market – a market in which independents are under more pressure each year.

“The challenges today for an independent are considerable,” says Bernier. “There is a continuing demand for capital to upgrade premises and meet consumer expectations. There is not only pricing pressure from the big players but now pressure in service levels as well. The new generation represented by our Proximity Store is turning up in more and more communities and pulling away customers.”

The resulting pressure is expected to accelerate decisions by independent store owners to close up, sell or join a purchasing group such as RONA to make sure they have the right tools to compete.

RONA seeks out likely candidates through Business Development teams across the country. The company will be focusing on Ontario and the West for recruitment in 2007, followed closely by the Atlantic provinces.

An affiliate store is required to order at least 90% of its stock through RONA, and also displays a RONA banner on its storefront.

IMPACT OF DEALER RECRUITING

Year	New affiliates	Square footage added	Retail sales added
(in millions of dollars)			
2003	12	117,000	\$ 60
2004	25	220,000	\$105
2005	31	335,000	\$191
2006	37	295,000	\$198
Total	105	967,000	\$554

ACQUISITIONS



Claude Guévin, (right), Executive Vice-President and Chief Financial Officer, discusses acquisition opportunities with Martin Lacroix, Vice-President, Finance and Corporate Development.

RONA STRENGTHENS COMMERCIAL PRESENCE

Recent acquisitions focus on specialty services to commercial and professional market.

RONA's over \$300 million of annualized sales from acquired businesses in 2006 made a solid contribution to the network, but it was the nature of the businesses that was noteworthy.

The four major acquisitions – one in Newfoundland, two in B.C. and one in Quebec – held a significance beyond geographic diversification. All four acquired companies evolve in the specialized market segment, either serving retail or ICI customers.

A fifth major acquisition of specialized stores was announced early in February 2007.

"We have made the decision to strengthen our capability in Institutional, Commercial and Industrial (ICI)," says Claude Guévin, Executive Vice-President and Chief Financial Officer. "We actually got started with our introduction of RONA Pro Services in 2005, but in the last 15 months we were able to act on the opportunities we were seeking."

RONA Pro Services takes service to the ICI market inside and outside the store. A national team liaises directly with professionals and managers in the ICI segment. The business is driven to existing stores but, where necessary, multi-point purchasing and distribution needs can be harmonized across the country.

Since 2000, RONA added over \$2.6 billion to annual retail sales and created more than \$80 million a year in recurring synergies.

ICI is the segment serving commercial-type accounts. These are the plants, office buildings, public and private institutions, as well as the contractors, plumbers, electricians and other professionals offering renovation and building maintenance services. In sales volume, it is nearly twice the size of the retail segment.

Triples the market

The retail hardware market in Canada is estimated at around \$35 billion. Including ICI sales takes the total over \$100 billion.

Expanding its business base has a lot of appeal for RONA. The company operates a best-in-class distribution and logistics network, its merchandisers will be dealing with many of the same vendors and a presence among the pros will strengthen its retail image of expertise.

In addition, the ICI wedge of the national pie has significant acquisition opportunities at a time when there are few large retail chains left to pursue.





"We are currently monitoring several acquisition opportunities," says Guévin. "We began in the building materials sector in 2006 and will focus as well in other categories such as plumbing, electrical and paint. We will also pursue our development through acquisitions in our traditional retail segment."

Plumbing became the second category for development on February 7, 2007, with an agreement to purchase Noble Trade Inc., once having obtained the required approvals. Noble Trade is an important plumbing and heating wholesaler in Ontario with 19 branches, a distribution centre and sales of \$150 million in the last 12 months.

The four 2006 acquisitions made RONA a national leader in the building materials sector and allowed the company to establish a presence in Newfoundland as well as extend our network in western Canada. They were:

- **Matériaux Coupal**
9 points of sale, 2 factories
\$125M in sales
Greater Montreal area
- **Chester Dawe**
8 stores, 2 factories
\$80M in sales
Newfoundland
- **Curtis Lumber**
6 stores, 1 factory
\$80M in sales
Vancouver and B.C. Lower Mainland
- **Mountain Building Centres**
3 stores
\$20M in sales
Vancouver-Whistler corridor

Mountain Building Centres also establishes RONA physically among the venues for the 2010 Winter Olympics of which it is a National Sponsor.

Swift integration

Since 2000, the company has added \$2.6 billion in retail sales and created more than \$80 million a year in recurring synergies from acquisitions. It credits its success with strict acquisition criteria defining the deal, followed by swift and skilful integration of the new assets.

RONA's four criteria, all of which must be met, are as follows:

- The company must have strong management
- It must be profitable
- It must contribute to RONA's earnings from Day One
- There must be potential for synergies

RONA's successful acquisition program is also a result of the speed and skill with which it integrates new businesses. In 2006, the company formalized an enterprise-wide integration capability focused on acquisitions, new store openings and the implementation of best practices.

A team headed by Vice-President Gilbert Nolasco, takes over after the completion of an acquisition. Its tasks are to identify synergies, best practices, establish relations with employees and act on any 'quick wins' to improve efficiency as quickly as possible.



NEW CUSTOMERS, FAMILIAR VENDORS

The February announcement of the acquisition of Noble Trade Inc. illustrates the leverage RONA expects to generate with its decision to build out specialty businesses in the commercial sector.

Entry into the \$11 billion commercial market for plumbing and HVAC (Heating, Ventilation and Air Conditioning) opens up a new customer base, enhances an existing retail base (12% of RONA's business is in consumer plumbing and HVAC, suggesting some cross-market possibilities) and will largely run off existing infrastructure. More than 50% of Noble Trade's industry suppliers also sell to RONA.

Noble Trade's customers are the Institutional, Commercial and Industrial (ICI) sector. This market is considered significantly less cyclical than retail.

The transaction also points to the exciting growth potential of the sector. Noble Trade has posted revenue growth averaging 27% for the past eight years and its EBITDA margins are higher than RONA's best big-box stores.

"It's a huge market with great opportunity," says President and CEO Robert Dutton. "It is perfectly in line with our strategic development plan."



ENABLING THE GROWTH

Rapid growth brings its own challenges. In 2006, RONA embarked on an eight-point optimization of its supply chain to improve efficiency.

Meeting the goal of \$7 billion in annualized retail sales in 2007 means more than driving revenues. To do so profitably means integrating our acquisitions efficiently.

RONA, which has increased consolidated sales at a compound annual growth rate of 26% a year since 2001 is no stranger to the challenges that accompany strong growth.

RONA's goal is to provide the customer with the right product, at the right time, in the right quantity, at the right place, at the lowest possible cost.

"Every acquisition requires rationalizing inventory and vendors. Otherwise, after a while your inventory can get really bloated," says Normand Dumont, Executive Vice-President, Merchandising. "Last year, we decided that Supply Chain Optimization – analyzing and streamlining every cost factor in the whole supply chain process – had become our number one priority."

Getting supplies where they are needed at the time they are needed is the priority of any distribution system. RONA's goal is to "provide the customer with the right product, at the right time, in the right quantity, at the right place, at the lowest possible cost."

RONA's supply chain optimization effort involves 3,000 suppliers and seven central departments. – Marketing, Finance, IT, Distribution & Logistics, People & Culture, Stores and Retail Operations. Directing this multi-task operation is the responsibility of Gilbert Nolasco, Vice-President, Integration.



Normand Dumont, Executive Vice-President, Merchandising meets with members of his team in the Boucherville Distribution Centre. From left: **Normand Dumont**; **Larry Jarvis**, Merchandising Vice-President, Building Materials; **Gabriel Rousseau**, Senior Director, Design Store Planning; and **Luc Nantel**, Merchandising Vice-President, Merchandising Hardware.

Inventory streamlined

The first focus of the supply chain optimization was on inventory. Although in 2006 RONA exceeded its target for synergies from current acquisitions, as it did in the past, management still felt it could achieve further improvement through supply chain optimization.

But sharp reductions in the number of inventory items cause new challenges of their own. The ultimate objective is to have the product for the consumer when he or she comes looking for it. The inventory manager must make sure that product is one of the ones retained.

“So it’s not just an issue of quantity, but also of quality,” explains Dumont.

This is particularly challenging for the products which are imported and therefore have longer lead and delivery times than the more than 90% which RONA sources from Canadian vendors. RONA manages its offshore purchasing through membership in A.R.E.N.A., a consortium of retailers from 10 countries whose combined purchases reaches \$28 billion.

Delivering efficiency

The second major component in optimizing the supply chain is Distribution. RONA has multiple channels for distributing products to the stores according to whether they are delivered by truck or rail, and whether they are shipped direct or go through one of the company’s Distribution Centres. It maintains seven Distribution Centres across the country.





Pierre Pelletier, (right), Vice-President, Logistics and **Éric Laurence**, Operations Director, Terrebonne Distribution Centre, discuss the new facility which opened in 2006.

High volume products present opportunities to achieve more efficiency over traditional distribution methods. In October 2006, RONA opened a new-concept, 380,000 square foot distribution centre in Terrebonne, just outside Montreal.

"It's called a flow-through, or cross-dock design," explains Pierre Pelletier, Vice-President Logistics and a 35-year distribution veteran. "That's because the pallets arrive in one truck from the vendor and are distributed to the far-side bays which are loading trucks to the individual stores. The goods will be in and out the same day."

The new facility will also make it easier to handle container shipments arriving through the Port of Montreal.

Pelletier sees opportunities to leverage the total RONA distribution network.

"Our intention is to develop closer relationships with our vendors in order to optimize the total supply chain and therefore derive cost reduction. My objective is quite simple: lower supply chain costs."

RONA invested more than \$40 million in distribution facilities in 2006. The main centre in Boucherville was also expanded from 650,000 to 900,000 square feet.

In 2007, a strong focus will be on supporting the exceptional growth in the Canadian West. Plans will be drawn up to double the size of the Calgary distribution centre and offer more products to a growing number of stores. Since the distribution centre opened in Spring 2004, RONA's business in western Canada has increased from 61 to 111 stores.





Linda Michaud, Senior Vice-President, Information and Technology, checks out a software update with members of her team. From left: **Alain Gearey**, Production Coordinator; **Lucia Biondi**, Senior Director, IT Development; **Linda Michaud**; and **Claude Renaud**, Director, Technical Services Information and Technology.

A big role for IT

A large part of the challenge in enabling RONA's growth falls on Information Technology. The company will invest \$40 million in 2007 to optimize and standardize IT infrastructure for RONA and the companies it has acquired over the past seven years.

The bulk of the investment will be in converting the enterprise to a single platform that will integrate all the company's financial needs and make possible sophisticated analysis and reporting. Furthermore, it will allow the company to integrate upcoming acquisitions more rapidly.

"It is more than creating common platforms," points out Linda Michaud, Senior Vice-President, Information and Technology. "We implement best practices for all the stores in each group as part of the process.

So now the Cashway and all our Home Centre stores use standardized business processes and the same for all of our Home and Garden Centres."

RONA plans to invest \$40 million in 2007 to optimize and standardize information technology.

Compliance Procedures

A major part of the IT effort in 2006 – as much as 25% of the IT capital expenditures – was devoted to the implementation of new IT processes and controls to meet the 2006 deadline for compliance with regulation. Organizations such as RONA need to implement robust IT processes and controls such as the management of changes to applications, the security of the systems and the technical compliance of the infrastructure.





Michael Brossard, (right), Senior Vice-President, Marketing and **Mark Hindman**, Vice-President, Marketing and Olympic Programs, at the RONA l'Entrepôt in Charlemagne.

Building tomorrow's growth

RONA's growth momentum is driven by a skilled Marketing Program. The bulk of a \$140 million spend is directed at immediate response, providing a reference for purchasing renovation products with such tools as the national flyer program and consumer advertising.

Marketing also guards development of the RONA brand and its positioning in the minds of Canadians. Its most ambitious and likely most successful initiative is the company's multi-year, \$67 million Olympic Games sponsorship. RONA is one of only six Tier One National Partners of the 2010 Olympic Games, as well as being the only official supplier of home improvement, renovation and gardening products.

Its most ambitious and likely most successful initiative is the company's Olympic sponsorship.

"We had the highest gain ever in awareness levels in the first quarter," says Michael Brossard, Senior Vice-President, Marketing. "That was when the Olympic Games at Torino were on. Unaided awareness, traditionally high in Quebec, has reached 77% out west."

RONA has also committed additional funds specifically to the development of Canadian athletes preparing for the 2010 Games (see Growing with our Athletes).

GROWING WITH OUR ATHLETES PROGRAM

RONA committed an additional \$4 million in 2006 to its most ambitious marketing sponsorship – support for Canada's Olympic and Paralympic teams and Vancouver 2010 Olympic and Paralympic Winter Games.

The new Growing with our Athletes program will support 100 high performance athletes – 46 Olympic and Paralympic Canadian team aspirants for Beijing 2008 Summer Games and 54 prospects for Vancouver 2010 Olympic and Paralympic Winter Games from across Canada.

Additional in-store fund-raising will provide incremental funds for the athletes over the five-year span.

RONA's total financial support to Canada's Olympic and Paralympic athletes now exceeds \$7 million.

"The alignment is truly perfect," says Michael Brossard, Senior Vice-President, Marketing. "This is not just an excellent business initiative but reflects the core values of our company."



CAN I HELP YOU?

RONA sees its corporate culture as a differentiator and growth enabler.

On a February evening in Montreal, President & CEO Robert Dutton found himself on the stage of the main concert hall in Montreal's Place des Arts, addressing an audience of 2,500 RONA employees.

One of several stops each year across the country to update employees, management refers to the occasion as The Great Canadian Tour. To the employees, it's simply "Our Day".

Employees develop a strong feeling of ownership at RONA. The company's people-centric strategies, directed at both customer and employee, are core to its values and purpose. RONA looks on service not as a "desirable asset" but a critical enabler of growth.

"We work hard at it, and we're confident of being well positioned with regard to Service," says Denis Caron, Senior Vice-President, People and Culture. "The benefits of a customer culture have just as much effect on market domination as product leadership, loyalty and reputation."

"Let's put that another way. We plan to achieve \$7 billion in annualized retail sales by the end of 2007. It will be people who achieve it."

RONA considers its set of values (*see inside front cover*) an important differentiator in a highly competitive and rapidly changing market. Ethical behaviour, integrity and corporate culture are put up front and centre in the belief that consumers react to globalization trends by seeking out companies they trust.

Customer service – often described at RONA as being "in our DNA" – has always been a strategic priority. It is re-affirmed as the governing priority of People and Culture again in 2007. Continually improving the level of service and helpfulness is seen as a key ingredient to future growth in retailing.

The company culture is widely endorsed and embraced by the workforce. In Quebec, where some units are unionized, RONA signed a nine year, collective agreement in February with employees at the Boucherville Distribution Centre. Such an agreement is seen by both sides as a result of good daily communication based on mutual confidence, respect and search for common good.

The benefits of a customer culture have just as much effect on market domination as product leadership, loyalty and reputation.



Denis Caron, Senior Vice-President, People and Culture steers a weekly meeting. From left: **Anthony Kocsis**, Director, People and Culture (Ontario); **France Réhel**, Director, People and culture; **Denis Caron**; and **Éric Méthot**, Senior Director, People and Culture.

The company's people strategies across the enterprise are driven by a Master Plan of six components.

Prioritizing Service recognizes that building an organization is an evolutionary process. A strong Customer Culture is a result of persistence and unflagging determination. The commitment of senior management is communicated every day.

Mobilization and Communication focuses on engaging the "heart and soul" of employees in the task of building a great company. An index compiled by an outside firm shows RONA employee mobilization to be well above its benchmark group. The latest training, a leadership module aimed at the key supervisor level, is being rolled out in 2007.

IC4 TECHNICAL TRAINING SYSTEM (sessions of 25 minutes viewed)

	sessions
2004	> 45,000
2005	> 123,500
2006	> 190,000

Increasingly, the four most important words in retail are turning out to be: "Can I help you?" RONA identifies nine employee behaviours for superior customer service through a unique program termed AGP – *Acknowledge, Guide, Provide*. AGP today has 18,000 participants in 186 stores – roughly 90% of the workforce in corporate stores.

RONA employee mobilization to be well above its benchmark group.

A highlight of the program is the annual AGP Champions Gala. The highest points scorer in each corporate store is given a three-day trip to the gala – usually in Montreal – and is recognized in person at the dinner.

The fourth of six components in the service master strategy is *Technical Training*. Today's ease of access to information has resulted in more customers with a partial but often incomplete awareness of what they want. Having knowledgeable floor staff is key, and RONA achieves this with an in-store, interactive training program.

The IC4 system is in 225 stores and offers a selection of 400, 25-minute interactive videos in each official language (*see chart*). This program is reinforced by a RONA Academy staffed by technical instructors and featuring vendor product demonstrations in 12 cities.



RONA's AGP program guides customer-oriented behaviour of employees.



Knowledgeable service on the store floor is just one of the many ways in which RONA seeks to build the loyalty of its customers.

Of the last two components, *Performance Measurement* constantly assesses the effectiveness of the service orientation and provides feedback to *Talent Management*. Besides managing career development in house, Talent Management tackles the ever more daunting challenge of finding good people to start with (see box).

“There are challenges ahead in terms of hiring good people and retail has been slow to respond,” says Caron. “I think RONA is more pro-active than most in learning how to attract and keep high quality people. Think about it: managing a big-box store is like running a multi-million business that could employ 300 people!”

RONA’s recruitment strategy includes building a strong relationship in communities across the country, with special programs for students. The plan is being rolled out nationally in 2007.



The 2007 Great Canadian Tour stopped in Toronto.

BECOMING THE EMPLOYER OF CHOICE

At a time when commerce is finally appreciating the irreplaceable asset represented by a well-trained, courteous employee, they are getting tougher and tougher to find.

According to the Conference Board of Canada, we will be short one million workers in this country by 2024. In Quebec, the working population – those between 15 and 64 – will begin to shrink five years from now, in 2012.

Progressively, workers will not have the skills being sought, will not have the experience and ultimately will just not be there!

The consequences are predictable. A business will need a strong value proposition to attract workers and ultimately lure them away from another position. It must become the employer of choice.

RONA began addressing this issue three years ago. In 2007, it will roll out a national Recruitment Centre project staffed by hiring specialists. The purpose will be to innovate in the recruiting field and be known as the employer of choice in each region.

The centre will also offer services to the network, relieving local managers of a time-consuming responsibility.

Most important of all, the centre will greatly increase the opportunity to hire not only the most competent people, but those most likely to embrace RONA’s culture and values.

Management's discussion and analysis

RONA inc. ("RONA", "we" or the "Company") is Canada's leading retailer and distributor of home improvement, hardware and gardening products. As of February 20, 2007, the Company had 642 corporate, franchised and affiliated stores, as well as seven distribution centres.

RONA's sales include:

- > retail sales generated by its corporate stores;
- > wholesale sales generated by affiliated dealer-owned stores and by franchised stores (net of RONA's share in these stores);
- > a share of retail sales generated by franchised stores in which RONA holds an interest, and royalties on franchised sales.

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 fiscal 2006 with the Canadian Securities Administrators. These statements can be viewed online at www.sedar.com or on RONA's Web site www.rona.ca. This management's discussion and analysis (MD&A) should be read in conjunction with the Company's audited financial statements and related notes.

Non-GAAP performance measure

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

While EBITDA does not have a meaning standardized by generally accepted accounting principles in Canada (GAAP), it is widely used in our industry and financial circles to measure the profitability of operations, excluding tax considerations and the cost and use of capital. Given that it is not standardized, EBITDA cannot be compared from one company to the next. Still, we establish it in the same way for the segments identified, and, unless expressly mentioned, our method does not change over time. EBITDA must not be considered separately or as a substitute for other performance measures calculated according to GAAP but rather as additional information.

Stock split

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

Fiscal year

RONA's fiscal year ends on the last Sunday of each year and usually has 52 weeks. For interim disclosure purposes, the quarters end on the last Sunday of March, June, September and December and have 13 weeks. Fiscal 2005 ended on December 25 while fiscal 2006 ended on December 31. Therefore, fiscal 2006 had 53 weeks and the fourth quarter of 2006 had 14 weeks.

RONA: KEY FIGURES

Fiscal 2006, 2005 and 2004 (In millions of dollars except number of shares outstanding and earnings per share)

	Fiscal years ended		
	December 31 2006*	December 25 2005	December 26 2004
Sales before application of EIC-156**	\$ 4,605.0	\$ 4,065.1	\$ 3,680.0
Impact of EIC-156	53.1	38.7	54.1
Sales	4,551.9	4,026.4	3,625.9
Net earnings	190.6	175.2	138.2
Earnings per share (\$)***	1.66	1.53	1.22
Diluted earnings per share (\$)***	1.64	1.51	1.20
Total assets	2,108.4	1,667.6	1,336.7
Long-term debt	455.3	230.3	137.3
Number of shares outstanding at year-end	114,935,569	114,412,744	113,957,270

N.B. The Company did not pay dividends during these three years.

* Fiscal 2006 had 53 weeks. See "Fiscal Year" above.

** At the beginning of 2006, the Company adopted EIC-156, *Accounting by a Vendor for Consideration Given to a Customer* (volume rebates). The sales figures for 2005 and 2004 were adjusted retroactively.

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

Highlights of the last three years

For the fiscal year ended December 31, 2006, RONA posted net earnings of \$190.6 million, up 8.8% over the previous year. Earnings per share advanced 8.5% to \$1.66 (\$1.64 diluted) compared with \$1.53 (\$1.51 diluted) in 2005.

Consolidated sales advanced 13.1% in 2006 and 11.0% in 2005, in both cases fuelled internally and through acquisitions.

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

- > Growing sales within the existing network, i.e., same-store sales of our corporate, franchised and affiliated stores;
- > Building new corporate and franchised stores;
- > Recruiting new affiliates;
- > Making acquisitions.

In 2005, we launched our "7-07 Program" with a view to using the four growth vectors described earlier to boost retail sales¹ to \$7 billion annually by the end of 2007. By the end of 2005, we had reached almost the \$5 billion mark and at the end of 2006, we were close to \$6 billion, taking into account the recently announced acquisition of Noble Trade Inc. We are therefore in line with our objective.

RONA completed several acquisitions between 2004 and the end of 2006, the largest being TOTEM Building Supplies Ltd. in April 2005, which added some \$260 million in annual sales. In 2006 we continued to grow through acquisitions, namely: Chester Dawe Limited in Newfoundland (March); Matériaux Coupal Inc. in Quebec (April); Curtis Lumber Co. Ltd. in British Columbia (July); and Mountain Building Centres Limited, also in British Columbia (August). The year's acquisitions represent over \$300 million in annual sales.

FINANCIAL HIGHLIGHTS

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

	2006	2005	2004	2003	2002	2001
Results of operations						
Sales	\$4,551,936	\$ 4,026,424	\$3,625,866	\$ 2,666,167	\$ 2,293,304	\$ 1,800,389
Percentage increase	13.1%	11.0%	36.0%	16.3%	27.4%	39.7%
Operating income (EBITDA)	383,882	333,604	278,351	175,063	128,784	90,528
Net earnings	190,584	175,210	138,225	77,947	43,114	24,633
Earnings per share*	1.66	1.53	1.22	0.73	0.56	0.37
Diluted earnings per share*	1.64	1.51	1.20	0.72	0.54	0.36
Common shares						
Outstanding*	114,935,569	114,412,744	113,957,270	113,614,130	95,243,888	73,747,304
Cash flows from operating activities	283,437	158,712	107,252	114,135	83,257	68,038
Financial structure						
Total assets	2,108,382	1,667,616	1,336,745	1,262,022	766,434	744,076
Shareholders' equity	1,134,366	936,184	752,695	610,283	385,702	211,820
Long-term debt	455,310	230,300	137,330	163,925	99,337	283,788

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

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

Organic sales growth (consolidated sales excluding major acquisitions) was 4.2% in 2005 and 6.0% in 2006. Same-store sales were stable in 2005, and growth was predominantly fuelled by the construction of new corporate and franchised stores and affiliate recruitment. Same-store sales advanced 1.3% in 2006. Corporate and franchised store construction and affiliate recruitment were responsible for the remaining organic growth.

Operating profitability improved steadily from 2004 to 2006 as confirmed by our EBITDA margin (EBITDA/sales), which rose from 7.7% in 2004 to 8.3% in 2005 and to 8.4% in 2006. This performance reflects a general improvement in operating efficiency and the impact of acquisitions made in recent years, including the resulting synergies. The efficiency improvements take many forms: more favourable procurement conditions negotiated with vendors, more efficient distribution logistics associated with network expansion, better store performance, and enhanced efficiency thanks to the continuous upgrading of our technology platform. In 2006, our EBITDA margin did not increase as much as during the previous year because the companies specialized in building materials acquired in 2006 generated lower EBITDA margins than our consolidated margin. However, this impact should be mitigated in 2007 as acquisition-related synergies are realized.

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

2000	1999	1998	1997	1996
\$ 1,288,693	\$ 960,548	\$ 798,828	\$ 688,841	\$ 644,268
34.2%	20.2%	16.0%	6.9%	9.7%
60,088	37,175	30,570	25,734	20,212
18,013	14,706	13,511	11,063	9,130
0.29	0.23	0.21	0.20	0.17
0.28	0.22	0.20	0.20	0.17
57,683,560	60,928,128	62,365,128	64,341,984	52,917,440
33,051	(5,617)	30,615	10,240	15,258
450,973	287,916	253,575	165,692	142,291
132,658	121,002	108,683	98,189	56,741
104,514	36,242	34,877	4,639	26,259

Comparative analysis of results, 2006 and 2005

On February 20, 2007, RONA had 642 stores compared to 581 stores on February 21, 2006, an addition of 61 stores or 10%.

In terms of big-box stores, this past year we expanded the network but also upgraded stores according to our proven merchandising concepts. With regards to expansion, we opened five new big-box stores in 2006: two in Quebec (Charlemagne and Rimouski); one in Ontario (Barrie), one in Manitoba (Winnipeg) and one in British Columbia (Victoria/Langford).

We also opened three proximity stores in Winkler (Manitoba) and in Spruce Grove and Leduc (Alberta).

In 2007 we plan to start construction of 15 stores. Moreover some 60 sites in several regions of Canada have been approved by the Company's development committee, providing us with promising locations and enabling us to synchronize the openings with peak selling periods.

Construction will start on nine new big-box stores in 2007: four in Ontario, one in Alberta and four in Québec. Construction will start on three proximity stores, two in Quebec and one in New Brunswick. Moreover, three specialized stores in Ontario will be relocated to better sites in their markets.

After designing a new proximity store concept in 2005, RONA innovated once more and launched an innovative big-box concept, which was applied to the new store in Rimouski. This concept re-examines all the strategic points of contact with the consumer, i.e., the physical store, the signage, the store's way of doing things, its advertising campaigns and its flyers, with a view to building on the strengths of a proven formula that focuses on competitive pricing, a vast selection of items, product category depth and a fast, efficient shopping experience. This new concept also involves a larger number of open areas, a more shopper-friendly product layout, redefined lighting and a new, clearer signage.

The year's acquisitions added 26 points of sales in Canada including a strong foothold in Newfoundland. They also added four factories that manufacture roof trusses, joists, steel doors and prefabricated walls. In keeping with our strategic development plan, these additions bolstered our expertise, increased our purchasing power for construction materials and strengthened RONA's position in some regions, as well as its profile among independent dealers.

With regards to affiliate recruitment, we achieved our objectives in 2006, recruiting 37 new stores totalling over 295,000 square feet and close to \$200 million in annual retail sales. This past year was the best ever in terms of recruitment. These stores will help densify the network in these regions. Between January 1 and February 20, 2007, we recruited six additional stores, adding 60,000 square feet and \$21 million in annual retail sales.

In 2006, we completed the expansion of our Boucherville distribution centre. The additional 250,000 square feet bring the total surface to over 900,000 square feet, allowing us to better manage the current volume and anticipated growth.

This past year also saw RONA complete the construction and commissioning of the 380,000-square-foot cross-docking facility in Terrebonne, north of Montreal. The seventh pillar in RONA's distribution infrastructure, this centre was gradually put into operation in the last quarter of 2006. This facility will help us respond even more efficiently to the needs of our retailers in the eastern part of the country, improve the processing efficiency for containerized imports arriving in Montreal and facilitate just-in-time management. The newly expanded Boucherville distribution centre and the new Terrebonne centre will also significantly reduce the need for us to store merchandise in many small warehouses in the area. RONA now has seven distribution centres, totalling 1.9 million square feet.



RONA: NUMBER OF STORES¹ IN 2007² AND 2006³

THE RONA NETWORK

	Big-Box	Proximity	Specialized – Consumers	Specialized – ICI ⁴	
CORPORATE	RONA Le Régional RONA L'entrepôt RONA Home & Garden Réno-Dépôt	RONA Home Centre TOTEM RONA Le Rénovateur	RONA Building Centre RONA L'express Matériaux RONA LANSING RONA CASHWAY Chester Dawe	Curtis Lumber Matériaux Coupal	214 (157 in 2006)
FRANCHISED	RONA Le Régional RONA L'entrepôt		RONA CASHWAY		23 (24 in 2006)
AFFILIATED		RONA Le Quincaillier RONA Le Rénovateur RONA L'express RONA Hardware RONA Home Centre	RONA L'express Matériaux RONA Building Centre BOTANIX		405 (400 in 2006)
	72 (67 in 2006)	326 (333 in 2006)	228 (181 in 2006)	16 (0 in 2006)	642 (581 in 2006)
7 DISTRIBUTION CENTRES					

¹ Excluding the Noble Trade acquisition announced on February 7, 2007 and slated to close in the second quarter of 2007.

² As at February 20, 2007

³ As at February 21, 2006

⁴ ICI: Institutional, Commercial and Industrial

We plan to begin expanding the Calgary distribution centre in 2007 to meet our growing distribution needs in Western Canada. Slated for completion in 2008, the size of the centre will be doubled to 640,000 square feet, allowing us to consolidate activities currently spread across satellite centres and to cut operating expenses.

Economic conditions

Overall, the Canadian economic situation was favourable to our business in 2006. Domestic demand for consumer goods continued to drive much of the economy. At about 2.5%, growth was robust in the first half of the year but then fell to an annualized rate estimated at 1.5% by the Bank of Canada.

For the fifth straight year, Canadian residential resale prices increased, rising between 13% and 17%, depending on the type of home. Although the housing boom in Alberta inflated these rates, the fact remains that prices rose right across the country. Resales remained historically strong, surpassing 480,000 for the second year in a row.

In 2006, forest product prices fell once again. Thus, the average price of forest products sold in our network dropped 7%. These lower prices adversely affected both the year's sales and the average purchase in stores.

We estimate that the drop in forest product prices trimmed 1.1% off corporate and franchised store sales and 1.6% off distribution sales in 2006.

Lastly, weather conditions were not favourable to the sale of some seasonal items at year-end.

Results

Sales up 13.1%

Consolidated sales include sales generated by RONA's distribution centres and corporate stores, as well as the Company's share of franchised sales.

Consolidated sales for fiscal 2006 amounted to \$4,551.9 million, an increase of 13.1% over the \$4,026.4 million recorded in 2005. Excluding major acquisition impact, consolidated sales advanced 6.0% (consult segment analysis for more information).

Operating income rises 15.1%

Operating income stood at \$383.9 million in 2006, up 15.1% year-over-year. Our EBITDA margin increased from 8.3% to 8.4%.

The improved operating margin is part of a long-term trend (see Graph on next page), reflecting continuous gains in operating efficiency due mainly to technological investments completed in our distribution infrastructure, as well as purchasing and operating synergies generated by the integration of our acquisitions. It also stems from our growing presence in the retail sector where EBITDA margins are higher than on the distribution side.

Although the above factors caused RONA's EBITDA margin to improve in 2006, the following factors softened the progression:

- > The acquisition of businesses specialized in building materials where margins are lower than in big-box, proximity or other specialty stores. However building material stores generate more sales per dollar of capital employed. In 2007, RONA expects to increase their margins thanks to post-acquisition synergies derived from its greater purchasing power for building materials;
- > Expenses related to the drive to improve the quality of service in corporate and franchised stores, in order to increase traffic and customer loyalty;
- > A decrease in the average price of forest products and an increase in the price of fuel.

Interest, depreciation and amortization

Interest expense rose from \$16.1 million in 2005 to \$22.1 million due to an increase in our debt, required to finance our expansion, and to a slight increase in interest rates in the first half of 2006.

Depreciation and amortization advanced 34.2% from 2005 to \$74.5 million as a result of acquisitions, investments in our distribution infrastructure, corporate store openings and renovations, and ongoing improvements to our information systems.

Income taxes

Based on an effective tax rate of 32.1%, income taxes for the year amounted to \$92.2 million, compared to \$85.4 million last year, based on an effective tax rate of 32.6%.

Segment analysis

RONA has two distinct business segments: distribution and corporate and franchised stores.

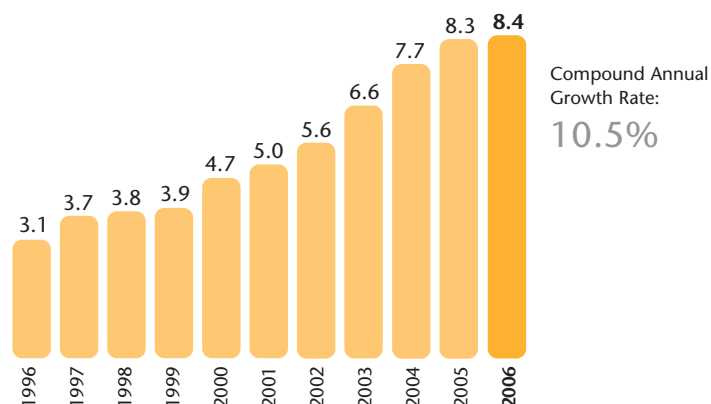
RONA: KEY SEGMENT FIGURES

(Fiscal year ended December 31, 2006)

	Distribution	Change Over 2005	Corporate and Franchised Stores	Change Over 2005	Total	Change Over 2005
	(thousands \$)	%	(thousands \$)	%	(thousands \$)	%
Segment sales	\$ 2,256,894	10.2	\$ 3,447,426	18.4	\$ 5,704,320	15.0
Intersegment sales and royalties	(1,140,594)	23.4	(11,790)	25.0	(1,152,384)	23.5
Sales	1,116,300	(0.7)	3,435,636	18.4	4,551,936	13.1
Operating income	67,264	4.2	316,618	17.7	383,882	15.1

Note: Fiscal 2006 had 53 weeks versus 52 weeks in 2005. 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).

RONA: OPERATING MARGIN (%)



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

Distribution: operating income up 4.2%

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

Distribution sales rose 10.2% in 2006 to \$2,256.9 million or 11.8% at constant forest product prices. This growth reflects the expansion and performance of the affiliated store network. The dealer-owners recruited in 2005 and 2006 are gradually integrating into the RONA network and contributing to distribution sales growth.

Net of intersegment sales, distribution sales decreased 0.7% to \$1,116.3 million in 2006. At constant forest product prices, distribution sales would have advanced approximately 0.9%. Excluding the additional week, distribution sales moved ahead 0.2%.

Between the two periods of comparison we acquired full or controlling interest in certain affiliates with a view to strengthening RONA's presence in some regions. These acquisitions resulted in an increase in intersegment sales (up 23.4% in 2006) and a decrease in distribution sales net of intersegment sales.

Operating income from distribution activities was up 4.2% over 2005 to \$67.3 million, representing 6.0% of sales, against 5.7% a year earlier. This improvement is attributable to ever improving distribution efficiency stemming from network expansion, the addition of better infrastructures and enhanced purchasing conditions.

Corporate and franchised stores: operating income up 17.7%

Retail sales by corporate and franchised stores advanced 18.4% to \$3,447.4 million in 2006. Acquisitions made during the year were a major factor in this growth, particularly Chester Dawe, Curtis Lumber and Matériaux Coupal. Slowed by the decrease in average forest product prices, organic growth (excluding acquisitions) was 4.1%. It was 5.2% at constant average forest product prices. Internal growth benefited from the contribution of corporate and franchised stores opened during the year in Victoria/Langford (British Columbia), Spruce Grove and Leduc (Alberta), Winkler and Winnipeg (Manitoba), Barrie (Ontario), and Charlemagne and Rimouski (Quebec).

Same-store sales grew 1.3% and 2.4% at constant forest product prices.

RONA: CHANGE IN SAME-STORE SALES

(Fiscal 2006 vs. 2005)

	% Change
Same-store sales	+ 1.3
Impact of decrease in average forest product prices	- 1.1
Same-store sales at constant average forest product prices	+ 2.4
Same-store sales after elimination of extra week in Q4	+ 0.3
Same-store sales at constant average forest product prices after elimination of extra week in Q4	+ 1.4

Retail operating income rose 17.7% year-over-year to \$316.6 million, representing 9.2% of sales, compared to 9.3% in 2005. The following factors explain this performance:

- The acquisition of businesses specialized in building materials where margins are lower than in big-box, proximity or other specialty stores. However building material stores generate more sales per dollar of capital employed. In 2007, RONA expects to increase their margins thanks to post-acquisition synergies derived from its greater purchasing power for building materials.
- Expenses related to the drive to improve the quality of service in corporate and franchised stores, in order to increase traffic and customer loyalty;
- A decrease in the average price of forest products and an increase in the price of fuel.

Cash flows and financial position

Operations generated cash flows of \$283.3 million in 2006 or 18.7% more than the \$238.7 million generated last year. Net of changes in working capital associated with the growth and development of the retail and distribution networks, operations generated cash flows of \$283.4 million, against \$158.7 million in 2005.

Acquisitions resulted in a net cash outflow of \$168.9 million. The year's acquisitions strengthened our rapidly growing network in Western Canada as well as our position in the segment of specialized building material stores.

In 2006, we disbursed \$232.2 million in capital investments to increase the surface and capacity of our distribution facilities, mainly the construction of a cross-docking centre in Terrebonne and the expansion of the Boucherville centre, both supplying Eastern Canada. We also expanded our retail network by building new stores and retrofitting, renovating and upgrading existing points of sale based on new concepts. As we do each year, we invested substantially to constantly improve our information systems with a view to boosting operating efficiency.

In the last quarter of the year, we increased our borrowing capacity and stabilized the cost of borrowed funds by securing new financing, thereby providing us with greater flexibility for future projects and more balanced financing sources. To this end, we completed a \$400 million debenture issue in Canada at a rate of 5.40%, maturing in 2016. The debentures are direct unsecured obligations of the Company and rank *pari passu* to all other outstanding unsecured and unsubordinated indebtedness of RONA.

The debentures were rated BBB high (stable) by Dominion Bond Rating Service Limited and BBB- (positive) by Standard & Poor's. As of the date of this report, these ratings were unchanged.

We also refinanced our credit facilities by way of a new agreement with a syndicate of lenders.

The new agreement provides for an unsecured, renewable credit facility of \$600 million. Since our debenture issue was more successful than anticipated, we decided to bring our credit facility down to \$500 million. Subject to certain conditions and at our discretion, we could request to increase this amount by up to \$150 million. The borrowing costs will depend on the Standard & Poor's rating assigned to the debentures. The agreement expires on October 6, 2011 and may be renewed for another two years. As at December 31, 2006, this facility had only been used for letters of guarantee, i.e., for approximately \$16 million.

The table below shows a summary of the Company's contractual obligations as at December 31, 2006, including off-balance sheet operating leases used in the normal course of business. As well, we concluded off-balance sheet arrangements such as inventory repurchase agreements and mortgage guarantees for certain customers (arrangements that do not appear in the table). For a more detailed description of these arrangements, see note 17 in the consolidated financial statements.

RONA: CONTRACTUAL OBLIGATIONS BY TERM

(As at December 31, 2006)

Contractual Obligations	Total	Payments by Term (thousands of \$)			
		Less than 1 year	1-2 years	3-4 years	5 years and more
Long-term debt	\$ 441,570	\$ 4,608	\$ 9,321	\$ 10,018	\$ 417,623
Obligations under capital leases	19,788	8,054	8,503	3,119	112
Operating and other leases	1,257,888	107,871	203,864	216,137	730,016
Other long-term obligations	84,691	29,341	36,600	15,550	3,200
Total	\$1,803,937	\$ 149,874	\$ 258,288	\$ 244,824	\$1,150,951

RONA: OUTSTANDING SHARES

(As at February 16, 2007)

Common shares	114,936,262
Unexercised options	3,162,479
Total	118,098,741

Our working capital (excluding instalments on long-term debt) stood at \$663.2 million at year-end, compared to \$497.7 million in 2005. The increase is a consequence of network growth, both organic and acquired. Although network growth caused our year-end inventory to increase from \$733.7 million in 2005 to \$790.5 million in 2006, a more efficient management enabled us to trim inventory levels by \$40 million toward the end of the year on a comparable basis.

Our balance sheet remains very solid. As at December 31, 2006, the total debt/capital ratio stood at 30.9%, in comparison with 22.2% at the end of 2005.

The equity/assets ratio reached 53.8% at the end of 2006, versus 56.1% on the same date last year.

Our operations generate strong cash flows. Thanks to our relatively low debt load, the 10-year rates on our long-term debt, good liquidity and access to some \$500 million in additional credit at competitive rates, RONA has sufficient resources to pursue its four growth vectors: same-store sales growth, new store construction, dealer recruitment, and acquisitions.

Our capital spending program will amount to about \$240 million in 2007, of which approximately \$175 million will be spent on construction, merchandising or renovation of big-box, specialty and proximity stores. About \$25 million will be used to expand the distribution network. Finally, some \$40 million will be used for the continuous improvement of our information systems.

RONA's 2005 and 2006 results attest to the soundness of our business model, which contains various development vectors to sustain earnings growth: organic growth, including the construction of corporate and franchised stores, dealer recruitment, and acquisitions. Our entire strategy is underpinned by disciplined operations management.

Quarterly information

RONA: CONSOLIDATED QUARTERLY FINANCIAL RESULTS

(In millions of dollars, except earnings per share)

	2006				2005			
	Q4*	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales before application of EIC-156	\$1,160.4	\$1,277.7	\$1,359.1	\$ 807.8	\$ 1,017.4	\$ 1,120.6	\$ 1,210.2	\$ 716.9
Impact of EIC-156	19.1	11.9	13.1	9.0	8.8	11.3	9.7	8.9
Sales**	1,141.3	1,265.8	1,346.0	798.8	1,008.6	1,109.3	1,200.5	708.0
Operating income	86.7	109.6	145.0	42.6	73.9	98.1	124.9	36.7
Net earnings	38.1	56.1	80.0	16.4	37.6	53.0	70.4	14.2
Earnings per share (\$)**	0.33	0.49	0.70	0.14	0.33	0.46	0.62	0.12
Diluted earnings per share (\$)**	0.33	0.48	0.69	0.14	0.32	0.46	0.61	0.12

* Q4 2006 has 14 weeks versus 13 for the other quarters. See "Fiscal Year" earlier.

** Following adoption of EIC-156, *Accounting by a Vendor for Consideration Given to a Customer* (volume rebates) at the beginning of fiscal 2006, the EIC was retroactively applied to 2005 sales and quarterly figures. See "Changes in Accounting Policies."

*** Earnings per share give retroactive effect to the two-for-one stock split of March 22, 2005.

RONA: ANNUAL CHANGE IN DISTRIBUTION, FRANCHISED AND CORPORATE STORE SALES

(2006 and quarters)

Quarter	Q4*	Q3	Q2	Q1	Year
Distribution sales	(1.2) %	4.5 %	(3.0) %	(2.7) %	(0.7) %
Corporate and franchised store sales	18.4 %	17.4 %	18.2 %	20.4 %	18.4 %

* Q4 2006 has 14 weeks versus 13 for the other quarters. See "Fiscal Year" earlier.

RONA: ANNUAL CHANGE IN SAME-STORE SALES

(Last 8 quarters)

	2006				2005			
Quarter	Q4*	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Change in same-store sales	+ 2.0 %	+ 0.1 %	+ 1.1 %	+ 1.0 %	- 2.0 %	- 0.3 %	+ 0.6 %	+ 4.8 %

* Q4 2006 has 14 weeks versus 13 for the other quarters. See "Fiscal Year" earlier.

Fiscal Year 2005 quarterly performance

During the first quarter of 2005, RONA's growth was spurred by robust organic growth, with corporate and franchised stores posting a 4.8% increase on a same-store basis and distribution sales gaining more than 12.4%, mostly due to the success of our recruitment program the previous year. Net earnings were up 26.9% over 2004.

Although same-store sales growth slowed in the second quarter due to a sharp drop in forest products prices, earnings continued to advance at a solid pace, fuelled by new corporate and franchised stores and TOTEM, which was integrated during the quarter. Thus, net earnings were up 31.1%.

Advancing 21.8%, net earnings continued to move ahead in the third quarter, spurred by most of our growth vectors: the positive impact of the TOTEM acquisition, the expansion of our corporate and franchised store network, the success of our dealer recruitment program, and improved operating efficiency.

In the fourth quarter of 2005, net earnings rose 26.1% year-over-year. Reflecting tougher market conditions in Eastern Canada and falling forest products prices, same-store sales pulled back 2.0%. However, RONA's other growth vectors—store construction, TOTEM's integration and dealer recruitment—were strong enough to propel growth.

Fiscal Year 2006 quarterly performance

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

The second quarter was the best in RONA's history, with net earnings climbing 13.7% over the same year-ago period to \$80.0 million. Concerted marketing, merchandising and store service efforts pushed same-store sales ahead slightly despite a drop in forest products prices. During this quarter, we also began integrating Chester Dawe, Matériaux Coupal and Curtis Lumber.

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

Segment analysis

RONA: KEY SEGMENT FIGURES

(Quarter ended December 31, 2006)

	Distribution	Change Over 2005	Corporate and Franchised Stores	Change Over 2005	Total	Change Over 2005
	(thousands \$)	%	(thousands \$)	%	(thousands \$)	%
Segment sales	\$ 548,726	5.7	\$ 878,095	18.4	\$ 1,426,821	13.2
Intersegment sales and royalties	(282,591)	13.1	(2,892)	35.0	(285,483)	13.3
Sales	266,135	(1.2)	875,203	18.4	1,141,338	13.2
Operating income	14,206	2.6	72,541	20.7	86,747	17.4

Note: Q4 2006 has 14 weeks versus 13 weeks in 2005. See "Fiscal Year" earlier. 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).

Fourth quarter 2006

Fourth quarter net earnings were up 1.3% year-over-year to \$38.1 million. Diluted earnings per common share were \$0.33 or 3.1% more than the \$0.32 recorded in the fourth quarter of 2005.

Economic conditions

Forest product prices fell again in the fourth quarter compared to last year. Thus, the average price of forest products sold in our network dropped 11% between the fourth quarter of 2005 and the fourth quarter of 2006.

These decreases adversely affected both distribution and retail sales. At constant forest product prices, quarterly distribution sales would have been 2.5% higher while corporate and franchised store sales would have picked up another 1.4%.

Finally, the weather had a negative impact on the sale of seasonal items at year-end. The drop in the consumer confidence index, especially in Eastern Canada, also worked against retail sales in the fourth quarter of the year.

Sales advance 13.2%

Consolidated quarterly sales advanced 13.2% over 2005 to \$1,141.3 million, propelled by corporate and franchised store sales. Organic growth of consolidated sales (excluding major acquisitions) was 6.1%.

Operating income climbs 17.4%

Quarterly operating income rose 17.4% over the year-earlier interval to \$86.7 million, representing 7.6% of quarterly sales, against 7.3% in 2005. This improvement stems from several factors discussed in the segment analysis later in this report.

Interest, depreciation and amortization

Quarterly interest expense rose from \$3.8 million last year to \$5.3 million due to the financing required for capital investments and for the year's acquisitions.

Depreciation and amortization amounted to \$22.3 million, against \$16.0 million in 2005, reflecting the opening of new corporate stores, the expansion of our distribution infrastructure in Boucherville and Terrebonne, and acquisitions.

Income taxes

Based on an effective tax rate of 32.5%, quarterly taxes were \$19.2 million, compared with \$16.3 million in the fourth quarter of last year based on an effective tax rate of 30.1%.

Fourth quarter distribution sales, including intersegment sales, increased 5.7% over last year.

Net of intersegment activities, distribution sales were \$266.1 million or 1.2% less than last year. At constant average forest product prices, distribution sales would have increased 1.3%. Excluding the additional week, distribution sales to affiliated and franchised stores declined 1.6%.

Between the two quarters of comparison, we acquired full or controlling interest in certain affiliates with a view to strengthening RONA's presence in some regions. These acquisitions resulted in an increase in intersegment sales (up 13.1%) and a decrease in distribution sales net of intersegment sales.

Operating income from distribution activities was up 2.6% from the fourth quarter of 2005 to \$14.2 million, representing 5.3% of sales, against 5.1% a year earlier. Margins improved as a result of better procurement conditions negotiated with vendors and improved efficiency following the expansion of our distribution infrastructure.

Corporate and franchised store sales, net of intersegment sales, advanced 18.4% to \$878.1 million in the last quarter of the year, fuelled by acquisitions, the majority interest acquired in affiliated stores earlier in the year and the contribution of stores open for less than one year.

Same-store sales moved ahead 2.0% and 3.4% at constant average forest product prices.

RONA: CHANGE IN SAME-STORE SALES

(Fourth quarter 2006 versus fourth quarter 2005)

	% Change
Same-store sales	+ 2.0
Impact of decrease in average forest product prices	- 1.4
Same-store sales at constant average forest product prices	+ 3.4
Same-store sales after elimination of extra week in Q4	- 2.1
Same-store sales at constant average forest product prices after elimination of extra week in Q4	- 0.7

Retail operating income rose 20.7% in the fourth quarter to \$72.5 million, representing 8.3% of sales, compared to 8.1% last year. A significant improvement from the third quarter, this increase was achieved despite the costs associated with improving store service, the effect of the decline in average forest product prices and the negative impact arising from the acquisition of stores that generate lower operating margins than our consolidated margin. A favourable product mix, efficiency gains and the synergies stemming from our acquisitions more than offset these unfavourable elements.

Subsequent events

After year-end, we announced the acquisition of all of the assets of Noble Trade Inc., one of the leading plumbing and heating supply wholesalers in Ontario serving a professional and commercial customer base. Subject to the usual conditions and certain regulatory approvals, the transaction will be financed through RONA's existing credit facilities and is scheduled to close in the second quarter of 2007.

A private company, Noble Trade is the product of a 1998 merger between Trade Plumbing Supplies and Noble Plumbing Supplies, founded in 1992 and 1993 respectively. Sales were approximately \$150 million in the last 12 months and revenues have grown an average of 27% per year since 1998. Noble Trade is a highly profitable company with a workforce of more than 300 people at 19 retail branches and one distribution centre in Ontario.

The Noble Trade acquisition is in line with our strategic development plan. It will increase our footprint in a segment with strong consolidation potential in Canada, namely, specialty retailers serving a commercial and professional clientele. This acquisition will not only give us new expertise and boost our purchasing power, it will also allow us to diversify our clientele and temper the cyclical variations inherent to the retail industry.

In February 2007, RONA signed a nine-year collective agreement with the employees at its main distribution centre in Eastern Canada. This agreement follows two six-year renewals signed in 2001 and 1995, attesting to the harmonious labour relations at this centre.

Outlook

RONA's long-term development has the benefit of favourable structural factors, notably, Canada's working population, age 25 to 55, is showing a growing interest in home renovation and gardening, and the baby-boomers, who account for 25% of the population, are approaching early retirement and retirement in better physical and financial shape than any previous generation.

In Canada more than 70% of homes are now over 20 years old and will require major work in the foreseeable future.

According to a survey of owner-occupants² conducted by the Canada Mortgage and Housing Corporation, 17% said they were planning or thinking about renovating their homes between the first quarter of 2006 and the first quarter of 2007. They estimated the average cost of the project at more than \$10,000.

Still, the situation is not as clear at this time. Canadian economic growth slowed down in the second half of 2006. The Bank of Canada is projecting growth of between 2.5% and 2.75% in 2007 and 2.8% in 2008. The central bank held its overnight interest rate steady in the second half of 2006 and at the time of writing was not foreseeing a change. Interest rates are currently low by historical standards.

Beyond that, the Conference Board Consumer Confidence Index was up at the end of 2006 with regards to the present situation but down with regards to expectations.

Regardless of the outlook, structural factors, the industry consolidation trend and the diversity of our growth vectors (same-store sales growth, store construction, dealer recruitment and acquisitions) give robustness to our growth strategy. We will therefore stay the course in 2007 and 2008. In the near term, we are continuing with our 7-07 Program, which calls for boosting retail sales to \$7 billion annually by the end of 2007. We are now close to the \$6 billion annual retail sales mark, considering the acquisition of Noble Trade announced in February 2007.

² Canada Mortgage and Housing Corporation, *Consumer Intentions to Buy or Renovate a Home*, May 2006.

Sales growth of existing network

Our organic growth strategy does not rely solely on a promising market. Instead, we proactively work to improve our consumer offer and boost our stores' visibility.

The following are some of our initiatives aimed at enhancing the customer experience:

- The renovation of stores will continue in 2007. RONA's policy is to renovate approximately 20% of its network each year with a view to implementing the most consumer-friendly concepts;
- The sustained development of our private label program, already one of the largest in the industry. Aimed at offering consumers better value, the private label line is being expanded, and together with exclusive products, will account for 15% of hardware sales by the end of 2007, compared with 14% in 2006;
- Continuous store employee training with a view to improving the consumer's real and perceived experience. RONA is budgeting a 14% increase in training expenses in 2007;
- The continuation of our new gift card program, which was an immediate success when it was launched in October 2005.
- The "Installation Program" continues in nearly all big-box and proximity stores. Working in partnership with qualified contractors, the program offers consumers turnkey installation services for kitchens, doors and windows or floor covering purchased in our stores.

We will carry on our development with the ICI segment (Institutional, Commercial, Industrial customers) to stimulate sales in this market segment. To this end, we set up a team of representatives assigned exclusively to serve our institutional, commercial and industrial customers.

With a view to enhancing the profile and drawing power of RONA and its banners, our marketing budget will increase by 6.7% from 2006 to \$148 million in the coming year.

The impact of the Air Miles™ program is exceeding expectations, especially since it is so far from reaching maturity. More than 70% of Canadian households have an Air Miles™ card, making it the most popular loyalty program in Canada.

Moreover, as a National Partner of the VANCOUVER 2010 Olympic and Paralympic Winter Games, RONA is growing its presence in the region that will be hosting the Games, thanks in part to the acquisitions of the Curtis Lumber and Mountain Building Centres networks. RONA will proudly lend a hand to help build the installations required by this world class event.

Construction of corporate and franchised stores

RONA plans to break ground for 15 new stores in 2007.

About half will be big-boxes and the remainder either proximity or specialty stores. This translates into an additional 1.2 million sq. ft. of retail space in our corporate and franchised store network or about 13% growth. RONA secured first-rate sites for new store development. The size of our network and our multi-format store concepts, which can be adapted to the type of real-estate development and region, have made RONA a partner of choice for major developers and several cities in Canada.

Affiliate recruitment

Based on our performance of the last few years, we believe we can realistically aim to add \$200 million in retail sales through affiliate recruitment. In an increasingly competitive market, and considering the succession problems experienced by many businesses, we believe this target is within reach, particularly given our superior offer to dealers. Our purchasing power, product selection, visibility, distribution infrastructure and marketing programs are even better than in the past and we continue to improve them.

Acquisitions

Acquisitions made between 2000 and 2006 have increased annual retail sales by some \$2.6 billion. The Noble Trade purchase, slated to close in the second quarter of 2007, will boost this figure by another \$150 million. Our development plan calls for more acquisitions on the retail, commercial and professional markets, through both proximity and specialized stores.

These transactions will only be made if they fulfill our extremely strict acquisition criteria.

RONA therefore plans to continue consolidating the Canadian hardware, renovation and gardening markets, which is still highly fragmented with 5,000 independent points of sale and dozens of quality businesses (retailers, distributors, specialists) whose owners may be prepared to sell, mainly because they lack a succession plan or effective tools to confront the competition. RONA has made many acquisitions in the last few years and proven its ability to successfully integrate them and generate substantial synergies.

Supporting sales growth and operations efficiency

Our business plan also comprises a program for sustaining sales growth and operating efficiency.

Thus, RONA will invest over \$25 million in its distribution infrastructure in 2007 in order to improve capacity and efficiency. This will be achieved mainly by expanding the Calgary distribution centre by 320,000 square feet to 640,000 square feet in 2008. Once completed, we will be able to optimize the replenishment of our stores in Western Canada and trim operating costs.

In 2007, we will continue implementing the Supply Chain Optimization (SCO) program, launched in 2006. The SCO program consists of various projects aimed at reducing store inventory while ensuring better product availability. It will improve both customer service and our operating margin.

In the coming year, we will also invest some \$40 million in our information systems with a view to further enhancing the efficiency of our supply chain and store network. For more than 12 years now, our EBITDA (EBITDA/sales) has improved every year without exception thanks to strict operations management and cutting-edge information management technology. This investment will ensure that we continue on this path.

Risks and uncertainties

The hardware, home improvement and gardening products industry is highly competitive. Our competitors include large national and multinational chains, regional groups and independent stores. Nonetheless, management believes that the Company has demonstrated its ability to prosper in this climate and in all market segments. Indeed, we have a number of advantages: a portfolio of banners and store format, evolving concepts, a coast-to-coast presence and a major distribution network.

Our industry is seasonal. First quarter sales are always weaker than the rest of the year because very little renovation is carried out in the winter. As well, bad weather can impact sales at any time of year, particularly of seasonal products. Fluctuations in the price of lumber and other building materials can also affect sales. Changes in commodity prices, especially oil, can influence product prices.

Economic conditions are beyond our control. Economic growth, the unemployment rate, interest rates and business and consumer credit conditions are all factors that can impact sales. In recent years, these factors have been favourable.

Beyond economic conditions, structural trends – aging homes (over 70% of Canadian homes are now more than 20 years old and over 85% are more than 10 years old), a buoyant home resale market, the rising price of properties, which make a good investment, the growing interest in renovation, the aging population and the cocooning trend all favour the development of our line of business.

Affiliated store sales represented 15.8% of the sales generated by all our segments in 2006. If, despite our recruitment efforts, we were to lose a significant number of dealers, sales would be adversely affected. The average affiliated store accounted for 0.05% of consolidated sales in 2006 and none represented more than 0.7%.

Acquisitions are a fundamental part of our development strategy. Since 2000, the Company has acquired and successfully integrated 12,000 employees, more than 175 stores and over \$2.6 billion in retail sales. Still, there is no guarantee that this will happen with every business we buy since sometimes the expected synergies do not materialize. The way we manage this risk is by being very selective and by following a systematic proven and perfected process to integrate the acquisition.

Changes in accounting policies

Since the publication of the 2005 Annual Report, the following changes have been made to the Company's accounting policies.

Accounting by a vendor for consideration given to a customer (volume rebates)

At the beginning of fiscal 2006, the Company adopted EIC-156 *Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)*, which provides guidance as to the circumstances under which a consideration is an adjustment of the selling price of the vendor's products or services and under which it is a cost incurred by the vendor to sell his products. The EIC-156 was applied retroactively, with restatement of prior periods. Volume rebates to customers previously presented as a reduction of EBITDA are now presented as a reduction of sales. Following application of EIC-156, sales were reduced by \$53.1 million in 2006 (\$38.6 million in 2005) and \$19.1 million in the fourth quarter of 2006 (\$8.8 million in 2005).

New accounting standards in effect in 2007

In 2005, the Canadian Institute of Chartered Accountants (CICA) issued three new Handbook Sections: Section 3855, *"Financial instruments – Recognition and Measurement,"* Section 3865, *"Hedges,"* and Section 1530, *"Comprehensive Income."* These new sections are effective for interim and annual periods beginning after October 1, 2006 and provide comprehensive requirements for the recognition and measurement of financial instruments, as well as standards on when and how hedge accounting may be applied.

Section 1530 requires companies to disclose comprehensive income. In addition to net income, comprehensive income consists primarily of unrealized gains and losses that bypass the traditional earnings statement and are recorded directly into shareholders' equity. Other components of comprehensive income include unrealized gains and losses related to the translation of foreign currency financial statements, certain deferred gains and losses from hedging activities, and unrealized gains and losses on certain investment securities.

The Company is currently assessing the impact of these recommendations and will implement them prospectively in the first quarter of 2007.

Significant accounting estimates

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

Inventory

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

Volume rebates

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

Goodwill and trademarks

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

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

Financial reporting

During 2006, management continued to work on implementing the Canadian Securities Authorities Multilateral Instrument 52-109, "Certification of disclosure in issuer's annual and interim filings ("MI 52-109"). This work was performed in accordance with the recognized control framework of COSO³ and led to the documentation of RONA's internal controls and the strengthening of their importance in the organization.

In the coming years, RONA will continue its work toward readiness for compliance with the final requirement of MI 52-109: the evaluation by management of the effectiveness of internal control over financial reporting. According to the information issued to date by regulatory authorities, RONA would have to issue its first evaluation report as of December 28, 2008.

Disclosure controls and procedures

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

The design and operating effectiveness of disclosure controls and procedures were evaluated. As at December 31, 2006, the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer concluded that disclosure controls and procedures were properly designed and effective.

Internal control over financial reporting

During 2006, RONA evaluated the design of internal control over financial reporting in accordance with the guidelines of MI 52-109. This evaluation allowed the President and Chief Executive Officer and the Executive Vice-President and Chief Financial Officer to conclude that internal control over financial reporting was designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian generally accepted accounting principles.

In addition, this work allowed determining that, during the year ended December 31, 2006, no change to internal control over financial reporting has occurred that has materially affected, or is reasonably likely to have materially affected, such control.

Forward-looking information

This MD&A includes "forward-looking statements" that involve risks and uncertainties. All statements other than statements of historical facts included in this MD&A, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the Company, may constitute forward-looking statements within the meaning of the Canadian securities legislation and regulations.

Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "foresee," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Forward-looking statements do not take into account the effect that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Company's business. For example, they do not include the effect of dispositions, acquisitions, other business transactions, asset writedowns or other charges announced or occurring after forward-looking statements are made.

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

The forward-looking statements in this MD&A reflect the Company's expectations as of February 20, 2007 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 management report was prepared on February 20, 2007. The reader will find additional information concerning RONA, including the Company's Annual Information Form, on the Company's Web site at www.rona.ca or on SEDAR at www.sedar.com.



Claude Guévin CA

Executive Vice-President and Chief Financial Officer



Robert Dutton

President and Chief Executive Officer

³ Committee of Sponsoring Organizations of the Treadway Commission.

CONSOLIDATED FINANCIAL STATEMENTS

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Consolidated Financial Statements

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



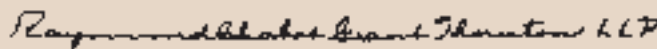
Claude Guévin CA
Executive Vice-President and Chief Financial Officer
Boucherville, February 12, 2007

AUDITORS' REPORT TO THE SHAREHOLDERS OF RONA INC.

We have audited the consolidated balance sheets of RONA inc. as at December 31, 2006 and December 25, 2005 and the consolidated statements of earnings, retained earnings and contributed surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and December 25, 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants
Montreal, February 12, 2007

CONSOLIDATED EARNINGS

Years ended December 31, 2006 and December 25, 2005
(In thousands of dollars, except earnings per share)

	2006	2005
Sales^(a)	\$4,551,936	\$4,026,424
Earnings before the following items	383,882	333,604
Interest on long-term debt	18,728	13,052
Interest on bank loans	3,417	3,067
Depreciation and amortization (Notes 10, 11 and 12)	74,545	55,558
	96,690	71,677
Earnings before income taxes and non-controlling interest	287,192	261,927
Income taxes (Note 4)	92,202	85,379
Earnings before non-controlling interest	194,990	176,548
Non-controlling interest	4,406	1,338
Net earnings	\$ 190,584	\$ 175,210
Earnings per share (Note 23)	\$ 1.66	\$ 1.53
Diluted earnings per share (Note 23)	\$ 1.64	\$ 1.51

^(a) Refer to Note 2, Changes in accounting policies.

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

CONSOLIDATED RETAINED EARNINGS CONSOLIDATED CONTRIBUTED SURPLUS

Years ended December 31, 2006 and December 25, 2005
(In thousands of dollars)

	2006	2005
Consolidated Retained Earnings		
Balance, beginning of year	\$ 518,883	\$ 343,673
Net earnings	190,584	175,210
Balance, end of year	\$ 709,467	\$ 518,883
Consolidated Contributed Surplus		
Balance, beginning of year	\$ 6,618	\$ 2,945
Compensation cost relating to stock-based compensation plans	2,490	2,408
Exercise of stock options	(177)	(69)
Gain on disposal of the Company's common shares by joint ventures and a subsidiary, net of income taxes of \$59 (\$313 in 2005)	251	1,334
Balance, end of year	\$ 9,182	\$ 6,618

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

Consolidated Financial Statements

CONSOLIDATED CASH FLOWS

Years ended December 31, 2006 and December 25, 2005
(In thousands of dollars)

	2006	2005
Operating activities		
Net earnings	\$ 190,584	\$ 175,210
Non-cash items		
Depreciation and amortization	74,545	55,558
Future income taxes	8,933	9,749
Net gain on disposal of assets	(1,594)	(3,357)
Compensation cost relating to stock-based compensation plans	2,490	2,408
Non-controlling interest	4,406	1,338
Other items	3,957	(2,195)
	283,321	238,711
Changes in working capital items (Note 5)	116	(79,999)
Cash flows from operating activities	283,437	158,712
Investing activities		
Business acquisitions (Note 6)	(168,872)	(123,335)
Advances to joint ventures and other advances	(5,295)	926
Other investments	(1,310)	(3,212)
Fixed assets	(232,173)	(143,969)
Other assets	(10,889)	(6,570)
Disposal of assets	6,852	34,499
Cash flows from investing activities	(411,687)	(241,661)
Financing activities		
Bank loans and revolving credit	(199,808)	100,563
Other long-term debt	406,302	5,147
Financing costs	(6,826)	-
Repayment of other long-term debt and redemption of preferred shares	(21,488)	(28,321)
Issue of common shares	4,701	4,149
Issue of equity securities to non-controlling interest	735	1,000
Redemption of equity securities from non-controlling interest	(1,000)	-
Cash flows from financing activities	182,616	82,538
Net increase (decrease) in cash	54,366	(411)
Cash, beginning of year	4,120	4,531
Cash, end of year	\$ 58,486	\$ 4,120
Supplementary information		
Interest paid	\$ 15,791	\$ 11,612
Income taxes paid	\$ 80,116	\$ 81,700

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

CONSOLIDATED BALANCE SHEETS

December 31, 2006 and December 25, 2005
(In thousands of dollars)

	2006	2005
Assets		
Current assets		
Cash	\$ 58,486	\$ 4,120
Accounts receivable (Note 7)	205,808	181,707
Inventory	790,496	733,681
Prepaid expenses	23,454	14,083
Future income taxes (Note 4)	10,859	8,513
	1,089,103	942,104
Investments (Note 8)	17,642	18,505
Fixed assets (Note 10)	634,131	415,899
Goodwill	316,558	252,337
Trademarks (Note 11)	1,380	-
Other assets (Note 12)	30,314	17,190
Future income taxes (Note 4)	19,254	21,581
	\$2,108,382	\$1,667,616
Liabilities		
Current liabilities		
Bank loans (Note 13)	\$ 21,221	\$ 25,276
Accounts payable and accrued liabilities	394,103	412,964
Income taxes payable	7,242	5,444
Future income taxes (Note 4)	3,314	750
Instalments on long-term debt (Note 14)	29,511	11,789
	455,391	456,223
Long-term debt (Note 14)	455,310	230,300
Other long-term liabilities (Note 15)	20,386	15,736
Future income taxes (Note 4)	19,402	13,792
Non-controlling interest	23,527	15,381
	974,016	731,432
Shareholders' equity		
Capital stock (Note 16)	415,717	410,683
Retained earnings	709,467	518,883
Contributed surplus	9,182	6,618
	1,134,366	936,184
	\$2,108,382	\$1,667,616

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

On behalf of the Board,

J. Spencer Lanthier
Director

André H. Gagnon
Director

Consolidated Financial Statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2006 and December 25, 2005
(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

Accounting by a vendor for consideration given to a customer (volume rebates)

At the beginning of fiscal year 2006, the Company adopted EIC-156 "Accounting by a Vendor for Consideration Given to a Customer (Including a Reseller of the Vendor's Products)", which provides guidance as to the circumstances under which a consideration is an adjustment of the selling price of the vendor's products or services and under which it is a cost incurred by the vendor to sell his products. EIC-156 was applied retroactively, with restatement of prior years. Volume rebates to customers, previously presented as a reduction of earnings before interest, depreciation and amortization, income taxes and non-controlling interest are now presented as a reduction of sales. Following application of EIC-156, sales were reduced by \$53,112 for the year ended December 31, 2006 (\$38,642 in 2005).

Variable interest entities

At the beginning of fiscal year 2005, the Company adopted prospectively the new accounting guideline on the consolidation of variable interest entities (VIEs), legal entities that are not controlled by shareholders with voting rights. The guideline provides guidance for determining when an enterprise must include the assets, liabilities and results of activities of such an entity and applies to annual and interim periods beginning on or after November 1, 2004. The application of this guideline did not have an impact on the Company's financial statements for the year ended December 25, 2005.

3. Accounting policies

Accounting estimates

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

Fixed assets

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

	Methods	Rates
Parking lots	Diminishing balance and straight-line	8% and 12.5%
Buildings	Diminishing balance and straight-line	4% and 5%
Leasehold improvements	Straight-line	5% to 33%
Furniture and equipment	Diminishing balance and straight-line	10% to 30%
Computer hardware and software	Diminishing balance and straight-line	10% to 33%

Goodwill and trademarks

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

Trademarks are amortized on a straight-line basis over a period of seven years and are also tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds the future undiscounted cash flows expected from the asset.

Other assets

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

Financing costs relate to credit facilities and debentures and are amortized on a straight-line basis over the financing term, over periods ranging from three to twenty years.

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

3. Accounting policies (continued)

Income taxes

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

Other long-term liabilities

Other long-term liabilities are amortized using the straight-line method over the terms of the leases or the duration of the contracts.

Stock-based compensation 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.

Derivative financial instruments

The Company uses derivative financial instruments to manage foreign exchange rate risk. The Company does not use derivative financial instruments for speculative or trading purposes. Derivatives are recognized at fair value with the changes in fair value recorded in earnings.

Employee future benefits

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

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

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

- 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.

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 31, 2006 and December 25, 2005 include 53 and 52 weeks of operations, respectively.

Comparative figures

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

4. Income taxes

	2006	2005
Current	\$83,269	\$75,630
Future	8,933	9,749
	\$92,202	\$85,379

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:

	2006	2005
Federal statutory income tax rate	22.1%	22.1%
Statutory rate of various provinces	10.0	9.0
Combined statutory income tax rate	32.1	31.1
Non-deductible costs	0.4	0.6
Other	(0.4)	0.9
Effective income tax rate	32.1%	32.6%

Consolidated Financial Statements

4. Income taxes (continued)

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

	2006	2005
Future income tax assets		
Current		
Pension plans	\$ -	\$ 1,226
Deferred non-capital losses	2,765	738
Direct costs related to business acquisitions	688	516
Provisions not deducted and other	7,406	6,033
	\$10,859	\$ 8,513
Long-term		
Financing costs	\$ -	\$ 430
Deferred non-capital losses	4,317	5,019
Share issue expenses	563	1,746
Fixed assets and pre-opening expenses	6,709	7,034
Deferred gain on sale and leaseback transaction	4,415	4,970
Goodwill	1,239	1,157
Deferred revenue and other	2,011	1,225
	\$19,254	\$ 21,581

	2006	2005
Future income tax liabilities		
Current		
Incentive payments received	\$ 2,442	\$ -
Other	872	750
	\$ 3,314	\$ 750
Long-term		
Fixed assets and pre-opening expenses	\$15,441	\$ 11,234
Goodwill	2,444	2,427
Pension plans	1,020	-
Other	497	131
	\$19,402	\$ 13,792

5. Cash flow information

The changes in working capital items are detailed as follows:

	2006	2005
Accounts receivable	\$41,032	\$ (7,283)
Inventory	14,004	(52,909)
Prepaid expenses	(9,104)	(2,818)
Accounts payable and accrued liabilities	(48,969)	(10,919)
Income taxes payable	3,153	(6,070)
	\$ 116	\$(79,999)

6. Business acquisitions

During fiscal year 2006, the Company acquired fourteen companies, operating in the corporate and franchised stores segment, by way of share or asset purchase. Taking direct acquisition costs into account, these acquisitions were for a total consideration of \$188,430. 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 allocation of the purchase price of the acquisitions was established as follows:

Current assets	\$137,128
Fixed assets	39,734
Goodwill	64,221
Trademarks	1,514
Other assets	327
Future income taxes	(578)
Current liabilities	(43,691)
Long-term debt	(6,312)
Non-controlling interest	(3,913)
	188,430
Less : Accrued direct acquisition costs	(1,409)
Balance of purchase price	(18,149)
Cash consideration paid	\$168,872

In 2005, the Company acquired all of the outstanding shares of TOTEM Building Supplies Ltd. (TOTEM), as well as land from TOTEM Energy Ltd. for future development. The results of operations for TOTEM are consolidated as of April 14, 2005. In addition, during fiscal year 2005, the Company acquired four other companies, operating in the corporate and franchised stores segment, by way of share or asset purchase. Taking direct acquisition costs into account, these acquisitions were for a total cash consideration of \$123,589. The Company financed these acquisitions from its existing credit facilities. The results of operations of these companies are consolidated from their date of acquisition.

In 2005, the allocation of the purchase price was established as follows:

	TOTEM	Other	Total
Current assets	\$ 55,547	\$ 29,166	\$ 84,713
Fixed assets	22,910	7,360	30,270
Goodwill	77,157	12,280	89,437
Future income taxes	(657)	349	(308)
Current liabilities	(43,448)	(10,980)	(54,428)
Long-term debt	(15,109)	(3,302)	(18,411)
Non-controlling interest	-	(7,684)	(7,684)
	96,400	27,189	123,589
Less: Accrued direct acquisition costs	(73)	(181)	(254)
Cash consideration paid	\$ 96,327	\$ 27,008	\$123,335

7. Accounts receivable

	2006	2005
Trade accounts		
Affiliated and franchised stores	\$ 49,955	\$ 73,305
Joint ventures	12,896	15,683
Other (retail customers)	121,434	83,800
Advances to joint ventures, prime plus 3%	5,582	-
Other accounts receivable	14,181	6,710
Portion of investments receivable within one year	1,760	2,209
	\$205,808	\$181,707

8. Investments

	2006	2005
Joint ventures, at cost		
Preferred shares, dividend rate of 6%	\$ 4,594	\$ 5,320
Mortgages, weighted average rate of 9.1% (8.9% in 2005) maturing on various dates until 2018	766	1,598
Companies subject to significant influence		
Shares, at equity value	2,631	1,939
Preferred shares, at cost, redeemable over ten years, maturing in 2011	400	480
Advances and loans, at cost		
Mortgages and term notes, weighted average rate of 7.1% (7.2% in 2005), maturing at various dates until 2016	10,374	10,532
Loans to managers for acquisition of shares, without interest	-	43
Other	637	802
	19,402	20,714
Portion receivable within one year	1,760	2,209
	\$ 17,642	\$ 18,505

The consolidated statement of earnings includes dividend income of \$287 (\$443 in 2005) and interest income of \$2,651 (\$2,485 in 2005).

9. Information on joint ventures

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

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

	2006	2005
Current assets	\$ 16,357	\$ 24,839
Long-term assets	9,531	16,973
Current liabilities	11,017	17,349
Long-term liabilities	6,432	11,748
Sales	70,284	106,465
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest	3,582	8,622
Net earnings	1,221	4,054
Cash flows from operating activities	119	1,462
Cash flows from investing activities	(2,218)	(718)
Cash flows from financing activities	894	(1,786)

The Company's sales include sales to joint ventures at fair value in the amount of \$118,308 (\$158,299 in 2005).

The Company's share in the commitments of these joint ventures amounts to \$490 (\$995 in 2005).

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10. Fixed assets

	2006			2005		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land and parking lots	\$ 119,630	\$ 7,877	\$ 111,753	\$ 63,806	\$ 5,399	\$ 58,407
Buildings	193,371	31,597	161,774	127,487	24,622	102,865
Leasehold improvements	131,309	55,481	75,828	88,856	39,882	48,974
Furniture and equipment	249,259	130,740	118,519	195,758	104,797	90,961
Computer hardware and software	128,230	83,545	44,685	104,246	68,392	35,854
Projects in process ^(a)	27,220	-	27,220	42,708	-	42,708
Land for future development	72,253	-	72,253	23,592	-	23,592
Assets under capital leases ^(b)						
Furniture and equipment	16,501	5,593	10,908	4,755	2,643	2,112
Computer hardware and software	21,118	9,927	11,191	19,264	8,838	10,426
	\$ 958,891	\$ 324,760	\$ 634,131	\$ 670,472	\$ 254,573	\$ 415,899

Depreciation of fixed assets amounts to \$65,704 (\$48,183 in 2005).

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

^(b) During the year, the Company acquired \$15,001 (\$2,842 in 2005) of assets under capital leases.

11. Trademarks

	2006	2005
Cost	\$ 1,514	\$ -
Accumulated amortization	134	-
Net	\$ 1,380	\$ -

Amortization of trademarks amounts to \$134.

12. Other assets

	2006	2005
At unamortized cost		
Pre-opening expenses	\$ 14,488	\$ 10,698
Financing costs	8,554	2,929
Costs related to sale and leaseback agreements	2,878	3,148
Accrued benefit asset (Note 19)	4,349	364
Other	45	51
	\$ 30,314	\$ 17,190

Amortization of other assets amounts to \$8,707 (\$7,375 in 2005).

13. Credit facilities

a) Parent company and some subsidiaries

On October 6, 2006, the Company completed the refinancing of its credit facilities by way of a new agreement with a syndicate of lenders. The agreement provides for an unsecured, renewable credit facility of \$500,000

and subject to certain conditions, an additional amount of up to \$150,000. The premium on the base rate and borrowing costs varies in accordance with the credit rating assigned to the unsecured debentures. The facility is available for five years and may be extended for a period of two years.

Credit facilities are also used to issue letters of guarantee and credit letters for imports. At December 31, 2006, the letters of guarantee issued amount to \$15,709. For 2006, the weighted average interest rate on the revolving credit is 4.9% (4.4% in 2005).

The Company is required to meet certain financial ratios. At December 31, 2006, the Company is in compliance with these requirements.

The Company has also set up an unsecured credit facility in the amount of \$40,000, utilized by the issuance of letters of credit. The terms and conditions to be respected are the same as for the revolving credit. At December 31, 2006, the amount used is \$38,617.

b) Other subsidiaries

Bank loans are secured by an assignment of certain assets in the amount of \$171,245 (\$58,558 in 2005). These bank loans bear interest at rates varying from prime rate to prime rate plus 1% and are renewable annually. At December 31, 2006, the interest rates vary from 6% to 7% (5% to 6% in 2005). The amount authorized for these credit facilities is \$65,500 (\$40,000 in 2005).

c) Joint ventures

Bank loans are secured by an assignment of certain assets. The Company's share of these assets amounts to \$16,657 (\$16,315 in 2005). These bank loans bear interest at rates varying from prime rate to prime rate plus 1% and are renewable annually. At December 31, 2006, the interest rates vary from 6% to 7% (5% to 6% in 2005). The amount authorized for these credit facilities is \$23,700 (\$27,200 in 2005).

14. Long-term debt

	2006	2005
Revolving credit, weighted average rate of 4.9% (4.4% in 2005) (Note 13)	\$ -	\$ 183,997
Debentures, unsecured, rate of 5.4%, due in 2016	400,000	-
Mortgage loans, secured by assets having a depreciated cost of \$84,553, (\$79,564 in 2005), rates varying from 5.9% to prime plus 4.3% (prime plus 0.5% to 8.5% in 2005) maturing at various dates until 2025	41,570	38,915
Obligations under capital leases, rates varying from 2.9% to 11.6% (3.5% to 9.4% in 2005), maturing at various dates until 2015	18,304	10,064
Balance of purchase price, prime rate, payable at various dates until 2009	18,594	1,083
Shares issued and fully paid		
353 Class C preferred shares, Series 1 (1,030 shares in 2005) ^(a)	353	1,030
6,000,000 Class D preferred shares (7,000,000 shares in 2005) ^(b)	6,000	7,000
	484,821	242,089
Instalments due within one year	29,511	11,789
	\$ 455,310	\$ 230,300

^(a) During the year, the Company redeemed 677 shares (693 shares in 2005) for a cash consideration of \$677 (\$693 in 2005). These shares are redeemable over a period of five years.

^(b) During the year, the Company redeemed 1,000,000 shares (1,000,000 shares in 2005) for a cash consideration of \$1,000 (\$1,000 in 2005). These shares are redeemable over a period of ten years.

Dividends affecting earnings amount to \$294 (\$360 in 2005).

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

	Obligations under capital leases	Other long-term loans and shares
2007	\$ 8,054	\$ 22,155
2008	5,197	7,196
2009	3,306	6,525
2010	2,316	5,146
2011	803	6,872
2012 and subsequent years	112	418,623
Total minimum lease payments	19,788	
Financial expenses included in minimum lease payments	1,484	
	\$ 18,304	

15. Other long-term liabilities

	2006	2005
Deferred gain on sale and leaseback transaction	\$ 14,290	\$ 14,766
Deferred revenue	6,096	970
	\$ 20,386	\$ 15,736

16. Capital stock

Authorized

Unlimited number of shares

Common shares

Class A preferred shares, issuable in series

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

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

Class C preferred shares, issuable in series

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

Class D preferred shares, 4% cumulative dividend, redeemable at their issue price. 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 14)

Common stock split

On March 10, 2005, the Board of Directors approved a two-for-one split of the Company's common shares. All share and per share data, the number of stock options and exercise prices have been adjusted to reflect the stock split, effective March 22, 2005.

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16. Capital stock (continued)

Issued and fully paid:

The following table presents changes in the number of outstanding common shares and their aggregate stated value from December 26, 2004 to December 31, 2006:

	December 31, 2006		December 25, 2005	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	114,412,744	\$408,943	113,957,270	\$ 404,927
Issuance in exchange for common share subscription deposits	101,696	2,192	93,058	1,900
Issuance under stock-based compensation plans	400,550	1,952	330,723	1,361
Issuance in exchange for cash	20,579	455	31,693	755
Balance before elimination of reciprocal shareholdings	114,935,569	413,542	114,412,744	408,943
Elimination of reciprocal shareholdings	(54,920)	(301)	(76,351)	(400)
Balance, end of year	114,880,649	413,241	114,336,393	408,543
Deposits on common share subscriptions, net of eliminations of subsidiaries and joint ventures ^(a)		2,476		2,140
		\$415,717		\$ 410,683

^(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-based compensation plan of May 1, 2002

The Company adopted a stock option purchase 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. At December 31, 2006 the 2,920,000 options granted have an exercise price of \$3.47 and of this number, 1,149,723 options (781,323 options at December 25, 2005) 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 is \$1.10 per option according to this method. No compensation cost was expensed with respect to this plan for the years ended December 31, 2006 and December 25, 2005.

Stock-based compensation plan of October 24, 2002

On October 24, 2002, the Board of Directors approved another stock-based compensation plan for designated senior executives of the Company and for certain unrelated outside 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 a previous stock option plan. 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.

At December 31, 2006, the 1,504,852 options (1,041,200 options at December 25, 2005) granted have exercise prices ranging from \$14.29 to \$26.87 and of this number, 45,550 options (13,400 options at December 25, 2005) have been exercised and 67,100 options (35,150 options at December 25, 2005) have been cancelled.

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 year:

	2006	2005
Weighted average fair value per option granted	\$ 7.71	\$ 8.25
Risk-free interest rate	4.06%	3.88 %
Expected volatility in stock price	28%	27 %
Expected annual dividend	0%	0 %
Expected life (years)	6	6

Compensation cost expensed with respect to this plan was \$2,490 for the year ended December 31, 2006 (\$2,408 at December 25, 2005).

16. Capital stock (continued)

A summary of the situation at December 31, 2006 and December 25, 2005 of the Company's stock option plans and the changes that occurred during the years then ended is presented below:

	December 31, 2006		December 25, 2005	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of year	3,131,327	\$ 7.84	3,486,200	\$ 7.49
Granted	463,652	21.45	11,000	23.73
Exercised	(400,550)	4.43	(330,723)	3.91
Cancelled	(31,950)	18.34	(35,150)	15.65
Balance, end of year	3,162,479	10.16	3,131,327	7.84
Options exercisable, end of year	2,230,927	\$ 6.00	2,508,827	\$ 5.35

The following table summarizes information relating to stock options outstanding at December 31, 2006:

Exercise price	Expiration date	Options outstanding	Options exercisable
\$ 3.47	December 31, 2012	1,770,277	1,770,277
\$14.29	December 16, 2013	471,050	348,400
\$20.27	December 22, 2014	449,000	112,250
\$23.73	April 5, 2015	11,000	-
\$21.21	February 24, 2016	426,000	-
\$26.87	February 24, 2016	17,576	-
\$21.78	September 1, 2016	17,576	-
		3,162,479	2,230,927

17. Guarantees

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

The Company guarantees mortgages for certain customers to an amount of \$6,261. 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 \$15,215.

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 \$60,313. In the event of recourse, this inventory would be sold in the normal course of the Company's operations. These agreements have undetermined periods but may be cancelled by the Company with a 30-day advance notice. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low.

18. Financial instruments

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

- > The fair value of cash, accounts receivable, bank loans and accounts payable and accrued liabilities is comparable to their carrying amounts, given the short maturity periods;
- > The fair value of advances and loans, substantially all of which have been granted to dealer-owners, has not been determined because such transactions have been conducted to maintain or to develop favourable trade relationships and do not necessarily reflect terms and conditions which would have been negotiated with arm's length parties. Moreover, the Company holds sureties on certain investments which provide it with potential recourse regarding the operations of the dealer-owners in question;
- > The fair value of long-term debt, except for preferred shares and debentures, is equivalent to its carrying value given that significant loans bear interest at rates that fluctuate with the market rate;
- > The fair value of debentures was determined by discounting future cash flows at a rate that the Company could currently obtain for debentures having similar terms and maturities. The fair value was determined to be \$401,205;
- > The fair value of class C preferred shares, Series 1 and class D preferred shares, included in long-term debt, approximates their redemption value.

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19. Employee future benefits

At December 31, 2006, the Company has nine defined contribution pension plans and four defined benefit pension plans.

The total expense is \$8,072 (\$6,444 in 2005) for defined contribution pension plans.

Total cash payments for employee future benefits for 2006, consisting of cash contributed by the Company to its defined benefit and defined contribution pension plans, were \$15,278 (\$8,439 in 2005).

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 every three years. One of the plans will be valued as at December 31, 2006, another plan will be valued as at December 31, 2007 and the remaining plans will be valued as at December 31, 2008.

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

	2006	2005
Accrued benefit obligation		
Balance, beginning of year	\$36,928	\$ 32,098
Current service cost	647	288
Interest cost	2,177	1,929
Benefits paid	(2,231)	(1,124)
Actuarial loss	6,264	3,737
Balance, end of year	43,785	36,928
Plan assets		
Fair value, beginning of year	30,385	27,233
Actual return	3,677	2,256
Employer contributions	7,206	1,995
Employee contributions	227	25
Benefits paid	(2,231)	(1,124)
Fair value, end of year	39,264	30,385
Funded status—deficit	(4,521)	(6,543)
Unamortized cost of past services	36	50
Unamortized net actuarial loss	8,395	6,616
Unamortized transitional obligation	129	171
Valuation allowance	-	(36)
Accrued benefit asset	\$ 4,039	\$ 258
Accrued benefit asset included in other assets	\$ 4,349	\$ 364
Accrued benefit liability included in accounts payable and accrued liabilities	\$ 310	\$ 106

	2006	2005
Allocation of plan assets		
Equity securities	58%	57 %
Debt securities	42	43
Total	100%	100 %

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

	2006	2005
Current service cost	\$ 420	\$ 263
Interest cost	2,177	1,929
Actual return on plan assets	(3,677)	(2,256)
Actuarial loss	6,264	3,737
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefits costs	5,184	3,673
Adjustments to recognize the long-term nature of employee future benefits costs:		
Difference between expected return and actual return on plan assets	1,520	352
Difference between actuarial loss recognized and actual actuarial loss on accrued benefit obligation	(5,415)	(3,698)
Amortization of past service costs	14	14
Amortization of transitional obligation	42	42
	1,345	383
Valuation allowance relating to the accrued benefit asset	(36)	36
Net pension costs recognized	\$ 1,309	\$ 419

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

	2006	2005
Discount rate	5.0 to 5.25%	5.25 to 5.5 %
Expected long-term rate of return on plan assets	7.0%	7.0 %
Rate of compensation increase	3.0 to 5.5%	3.0 to 5.5 %

20. Commitments

The Company has entered into lease agreements expiring until 2019 which call for lease payments of \$75,949 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 2027 for corporate store space for minimum lease payments of \$1,063,251.

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 \$118,687 for the rental of premises and land on which the Company erected a building. In consideration thereof, the Company has signed subleasing agreements totalling \$117,940.

The minimum lease payments (minimum amounts receivable) under lease agreements for the next five years are \$107,871 (\$10,375) in 2007, \$103,270 (\$10,421) in 2008, \$100,594 (\$10,467) in 2009, \$97,355 (\$10,467) in 2010 and \$118,782 (\$10,511) in 2011.

In 2005, the Company entered into an eight-year partnership agreement for the Olympic and Paralympic Games valued at \$60,000. Moreover, in 2006 the Company committed an additional amount of \$7,000 to financial support programs for athletes. At December 31, 2006, the balance due on these agreements is \$59,744.

21. Contingencies

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

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

22. Segmented information

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

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

	2006			2005		
	Distribution	Corporate and franchised stores	Total	Distribution	Corporate and franchised stores	Total
Segment sales	\$ 2,256,894	\$ 3,447,426	\$ 5,704,320	\$ 2,047,774	\$ 2,912,090	\$ 4,959,864
Intersegment sales and royalties	(1,140,594)	(11,790)	(1,152,384)	(924,006)	(9,434)	(933,440)
Sales ^(a)	1,116,300	3,435,636	4,551,936	1,123,768	2,902,656	4,026,424
Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest ^(b)	90,382	413,728	504,110	86,611	349,391	436,002
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest	67,264	316,618	383,882	64,532	269,072	333,604
Total assets	398,180	1,710,202	2,108,382	336,206	1,331,410	1,667,616
Acquisition of fixed assets	36,669	215,781	252,450	23,393	127,341	150,734
Goodwill	-	64,221	64,221	-	89,437	89,437

^(a) Refer to Note 2, Changes in accounting policies.

^(b) Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest were restated to reflect the reclassification of certain rent expenses.

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23. Earnings per share

The following table presents a reconciliation of earnings per share and diluted earnings per share.

	2006			2005		
	Earnings	Weighted average number of shares (in thousands)	EPS	Earnings	Weighted average number of shares (in thousands)	EPS
Earnings per share:						
Net earnings	\$190,584	114,732.2	\$ 1.66	\$ 175,210	114,146.3	\$ 1.53
Diluted earnings per share:						
Effect of dilutive securities						
Impact of exercising stock options ^(a)	-	1,744.8	-	-	2,082.6	-
Net earnings available for common shareholders	\$190,584	116,477.0	\$ 1.64	\$ 175,210	116,228.9	\$ 1.51

^(a) At December 31, 2006, 921,152 common share stock options (485,000 at December 25, 2005) were excluded from the calculation of diluted earnings per share since the unrecognized future compensation cost of these options has an antidilutive effect.

24. Subsequent event

On February 7, 2007 the Company announced the acquisition of all of the assets of Noble Trade Inc., a private company operating in the corporate and franchised stores and distribution segments. This company, with 19 points of sale and one distribution centre in the province of Ontario, had sales of approximately \$150,000 in the last twelve months. The transaction, subject to the usual conditions and certain regulatory approvals, is expected to close in the second quarter of 2007.

Corporate Governance

ON BEING A GOOD CORPORATE CITIZEN

RONA's *raison d'être* is to satisfy our customers. It's the only way we can pay our employees and provide value for our shareholders over the long term. However, as a company RONA expresses itself through its relationships with all its stakeholders: shareholders, employees, vendors, the communities we do business in, and, more generally, Canadian society as a whole.

RONA and its shareholders: rigour and transparency

Although our shares have only been listed for a short time, our Board of Directors has a long tradition of rigour and transparency. RONA's management has also been long accustomed to high standards in terms of corporate governance. Before opening its capital to public investors, RONA was for many years owned almost exclusively by some 350 affiliate merchants, all informed business people with sound expertise in our line of business.

RONA's capital was opened to non-merchant shareholders in two stages. From 1997 to 2001, three investors injected capital to finance our expansion. Then, in the fall of 2002, we launched an IPO and listed our shares. Completed without a hitch, this transition provided the opportunity to review and update our governance and accountability rules, which comply with the Canadian Security Administrators' multilateral instruments (58-101 and 58-201). The reader will find a detailed report on this topic in the management proxy circular pertaining to the Annual Meeting of Shareholders scheduled for May 8, 2007.

Tools for employees

RONA and its network of corporate, franchise and affiliate stores have more than 26,000 employees, nearly half of whom joined RONA through acquisitions made since 2000.

Whether long-standing partners or newly arrived as a result of a recent transaction, RONA employees share similar values in terms of ethics and behaviour. RONA's values are well known: service, unity, respect, search for the common good and sense of responsibility. However, to ensure the availability of a clear, tangible and common reference, the company drew up a *Code of Conduct* and delegated its implementation to the Board of Directors' Nominating and Corporate Governance Committee. This Code applies to all RONA employees, and we expect all our affiliates, franchisees and their employees to adopt them as well. We also invite our consultants, suppliers and intermediaries to do the same.

This Code essentially addresses the following issues: conflicts of interest, confidentiality, dealing with customers and competitors, protecting the company's assets, mutual trust and respect of colleagues, and of course, compliance with laws and regulations.

Suppliers: responsible purchasing

The annualized retail sales of our store network has reached nearly \$6 billion, including the acquisition of Noble Trade announced in February 2007. In our highly competitive market, the procurement function is vital: product selection and prices, terms and conditions negotiated alone can make the difference between a good and bad year.

Under our purchasing policy, we try to buy where we do business. As an industry leader in Canada, we give preference to Canadian suppliers, who accounted for over 90% of our purchases in 2006. We have given some of our suppliers access to the entire Canadian market, thereby accelerating their expansion.

That said, we owe it to our customers to scout the world for products or buying conditions that are not available on the domestic market. Most of our foreign purchases are made through A.R.E.N.A., an international purchasing group whose members account for over \$28 billion in retail sales. With offices around the world, A.R.E.N.A. has become an indispensable complement to our own procurement structure.

However, regardless of their location, our suppliers and partners must respect worker rights and the environment. Neither RONA nor A.R.E.N.A. tolerates any form of exploitation by their suppliers, particularly forced labour, child labour that contravenes the laws, habits and customs of the country concerned, physical violence, mistreatment or health and safety practices that run counter to the law.



Left to right: Jean Gaulin, Jocelyn Tremblay, Pierre Ducros, Louis A. Tanguay and Jean-Guy Hébert



Left to right: Robert Dutton and André H. Gagnon

Responsible use of resources

RONA is one of the largest paint retailers in Canada. Over ten years ago, we implemented a paint-recycling program, in collaboration with the Quebec government, municipalities and not-for-profit organizations.

The program is unique in North America. Consumers can bring their used paint containers back to any RONA or Réno-Dépôt store in Quebec. Thanks to these stores, we recovered over 1.2 million kilograms of paint and containers for recycling last year. As other provinces adopt similar programs, RONA will be there ready to help.

We back customer efforts to use resources efficiently and responsibly. We actively promote energy conservation solutions to residential and non-residential property owners as well as recycling solutions for organic and inorganic matter.

And we ourselves practice green resource utilization.

For example, in our distribution centres, we ensure that all plastic wrap used in palletization and all cardboard packaging is recycled rather than destroyed after use. Every year we recycle some 3,400 m³ of cardboard and 300 m³ of plastic wrap.

Flyers are an effective way to reach consumers and tell them about products, discounts and special purchases available from season to season. Since this marketing activity uses so much paper, we have decided that beginning in 2007 we will print all our flyers on recycled paper.

Our biggest distribution centres—in Boucherville, Terrebonne and Calgary—and our headquarters are also our newest buildings. They were designed and built using the latest energy-efficiency technology. These buildings also use leading-edge energy consumption technology for heat regulation and lighting, generating an estimated 15% to 20% in energy savings.

RONA operates a fleet of trucks equipped with overspeed governors and “black boxes” to record parameters such as vehicle speed and engine rotation. Besides increasing the safety of our own fleet and other vehicles on the roads, these measures promote a driving style that optimizes fuel efficiency.

Our Botanix division is the main sponsor of the EcoAd program, an original initiative that promotes tree planting in municipalities. EcoAd offers municipalities the opportunity to plant trees for free. The program is funded by local or national businesses that are allowed to put their own sign on 30% of the trees they finance. The signs themselves are made of recycled plastic. Botanix provides the trees to EcoAd for free.

Marketing and social commitment

Our business mandate and responsibility as a corporate citizen are not contradictory. Quite the opposite. Our responsibility as a corporate citizen changes how we execute our business mandate. This involves making sure that our sizeable marketing budget—more than \$150 million in 2007—supports both our business development and the development of the Canadian community we are a part of.

For example, we are the official partner of the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games™ (VANOC). In exchange for a contribution estimated at some \$60 million, we obtained the sponsorship rights for the Canadian Olympic Team for the Turin 2006, Beijing 2008, Vancouver 2010 and London 2012 Games. While we certainly expect to gain visibility from our association with the Canadian Olympic movement, we also did this to help finance the 2010 Winter Games and to help develop high-calibre Canadian athletes.

To this end, the agreement calls for setting up a five-year financial support program for 100 proven or prospective Canadian Olympians selected by the Canadian Olympic Committee. This is one of the most ambitious private funding programs the Canadian Olympic and Paralympic movements have ever been involved in. The five-year RONA program will



Left to right: Jean-Roch Vachon, J. Spencer Lanthier, James Pantelidis, Louise Caya and Alain Michel

support athletes all across Canada: 46 candidates for the 2008 Summer Olympic and Paralympic Games in Beijing and 54 candidates for the 2010 Winter Games in Vancouver. The program also includes in-store fundraising that may provide another \$2 million for athletes over five years.

This new financial support is in addition to our previous commitments to the Canadian Paralympic Committee and the Canadian Olympic Committee "Own the Podium" program. RONA is very proud to be supporting Canadian Olympic and Paralympic athletes and to be helping more Canadians reach the Olympic podium.

Beyond all this, we signed a three-year partnership agreement valued at more than \$600,000 with the Canadian Red Cross to help Canadian families evacuated during disasters. Under this agreement, RONA helped hundreds of families during the flooding in High River, Alberta and in Quebec. We are also the main sponsor of the RONA MS Bike Tour, a series of 21 cycling events organized across Canada for the benefit of the Multiple Sclerosis Society of Canada.

Our philanthropic commitment

Besides sponsorships, in which we combine business with community involvement, RONA and its dealer-owners also allocate substantial funds to strictly philanthropic initiatives.

The RONA Foundation

A portion of our philanthropic contribution is channelled through the RONA Foundation. Created in 1998 and funded by RONA and contributions from our business partners and other donors, the Foundation helps young people from 12 to 30 years of age by supporting local organizations and projects that fight illiteracy and the school dropout problem or offer training to help young people acquire a trade or occupation. The Foundation helps troubled and underprivileged youth learn to believe in themselves and in life, for their own benefit and for that of their community.

André H. Gagnon
Chairman of the Board

BOARD OF DIRECTORS

Robert Dutton⁵

President and Chief Executive Officer

Louise Caya⁴

Vice-President and Secretary
Thomas Caya (1982) inc.
(hardware store) and
Vice-President and Controller, Industrie Fabco Inc.

Pierre Ducros^{1, 3}

Corporate Director

André H. Gagnon

Chairman of the Board of RONA
President of H. Gagnon & Fils (1975) Ltée and
Dealer, RONA Le Régional (Saint-Hyacinthe)

Jean Gaulin^{2, 3}

Corporate Director,
Vice-Chairman of the Board and
Lead Director of RONA

Jean-Guy Hébert⁴

President of Maximat Inc. (holding company),
of Horizon Devcow Inc. (real estate),
of Gestion J.G. Hébert inc. and
Dealer, RONA L'entrepôt (Granby)

J. Spencer Lanthier¹

Corporate Director

Alain Michel¹

Chairman of the Board of Cari-All Group Inc.
(manufacturer of shopping carts)
and Corporate Director

James Pantelidis^{2, 4}

Chairman of the Board of Directors
of Consumers' Waterheater Income Fund
(energy heating) and of Parkland Income Fund
(energy downstream), and Corporate Director

Louis A. Tanguay^{2, 3}

Corporate Director

Jocelyn Tremblay^{2, 3}

President and Chief Executive Officer
of Vins Arista inc. (Groupe Lassonde)
(wine merchant) and Vice-President,
Corporate Affairs, Vins Philippe Dandurand inc.
(wine agent)

Jean-Roch Vachon^{1, 4}

Chairman of the Board of Directors
of La Madeleine Holdings (restaurant),
and Corporate Director

¹ Member of the Audit Committee

² Member of the Human Resources and Compensation Committee

³ Member of the Nominating and Corporate Governance Committee

⁴ Member of the Development Committee

⁵ 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.

HONOURING A RONA BUILDER: ANDRÉ H. GAGNON



On May 8, André H. Gagnon will retire as chairman of the Board and as a RONA board member. André is, of course, far more than a director of our company: he has been an integral part of our history and collective memory for over half a century.

André has been active in the retail hardware business since 1953. He was a mere teenager when he started working at his family's hardware store in Saint-Hyacinthe, a city of about 50,000, some 60 kilometers east of Montreal.

In 1962, the family business became part of the RONA network. André had just turned 28 when he took over command of the family store after his father passed away unexpectedly in 1966.

Since 1953, the Gagnon family business has undergone no less than 19 expansions and relocations. When André joined his father's business, he had only four co-workers. Today some 700 of RONA's 26,000 employees work in stores owned in whole or in part by the Gagnon family.

All this success doesn't come as much of a surprise when we consider how completely André embodies the RONA values of service, unity, respect, seeking the common good and sense of responsibility.

The convergence of all these RONA values in a single individual shouldn't come as much of a surprise either since André was closely involved in defining, communicating and defending our values. André joined the RONA Board of Directors in 1971, became vice-chairman in 1979 and went on to become chairman in 2002. So while he skillfully oversaw the growth of his family business, he was also contributing to the development of RONA into the company it is today, playing a key role in all major strategic decisions.

André's exhaustive knowledge of retail services was acquired in the field and this made him a valuable advisor for generations of RONA managers. It explains why he was always being sought after for his ambitious vision, which was carefully tempered with a strong measure of pragmatism and firmly rooted in an obsession with customer satisfaction.

Although he is leaving the Board of Directors, André is not saying goodbye to RONA altogether. He will stay on as a director of his family business and, as a consequence, as a RONA associate and shareholder, and no doubt will remain a RONA friend as ever.

As directors, managers, employees, dealer-owners and RONA shareholders, we have all benefited in one way or another from André H. Gagnon's time with RONA. And for this we are all truly grateful.

Thank you, André!

Robert Dutton
President and Chief Executive Officer

Management team

Robert Dutton
President and Chief Executive Officer

Claude Bernier
Executive Vice-President
Proximity and Specialized Stores

Michael Brossard
Senior Vice-President
Marketing

Denis Caron
Senior Vice-President
People and Culture

Pierre Dandoy
Executive Vice-President
Big-Box Stores

Normand Dumont
Executive Vice-President
Merchandising

Claude Guévin
Executive Vice-President and
Chief Financial Officer

Linda Michaud
Senior Vice-President
Information and Technology

Gilbert Nolasco
Vice-President
Integration

Pierre Pelletier
Vice-President, Logistics

Michèle Roy
Vice-President
Communications and Public Affairs

Key Dates

Fiscal year-end: December 30, 2007

Annual General Meeting:
May 8, 2007 at 4:00 p.m. (Eastern Time)

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

Auditors

Raymond Chabot Grant Thornton
LLP
Chartered Accountants

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La version française de ce rapport est disponible sur demande.
Legal deposit: 2nd Quarter 2007
Bibliothèque nationale du Québec
Graphic Design: CGCOM



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PARALYMPIC GAMES | JEUX PARALYMPIQUES

RONA NATIONAL PARTNER

Growing with **OUR ATHLETES:** making Olympic and Paralympic dreams come true

We are helping 100 Canadian athletes to meet their goals for upcoming Olympic and Paralympic events through the **RONA Growing with Our Athletes** program.

Winning values.
Let's pass them on.



GROWING WITH OUR ATHLETES
PROGRAM

RONA

Mélanie Turgeon, Ambassador of the RONA Growing with Our Athletes program

www.rona.ca