RONA

ANNUAL REPORT

2009

READY for the New World

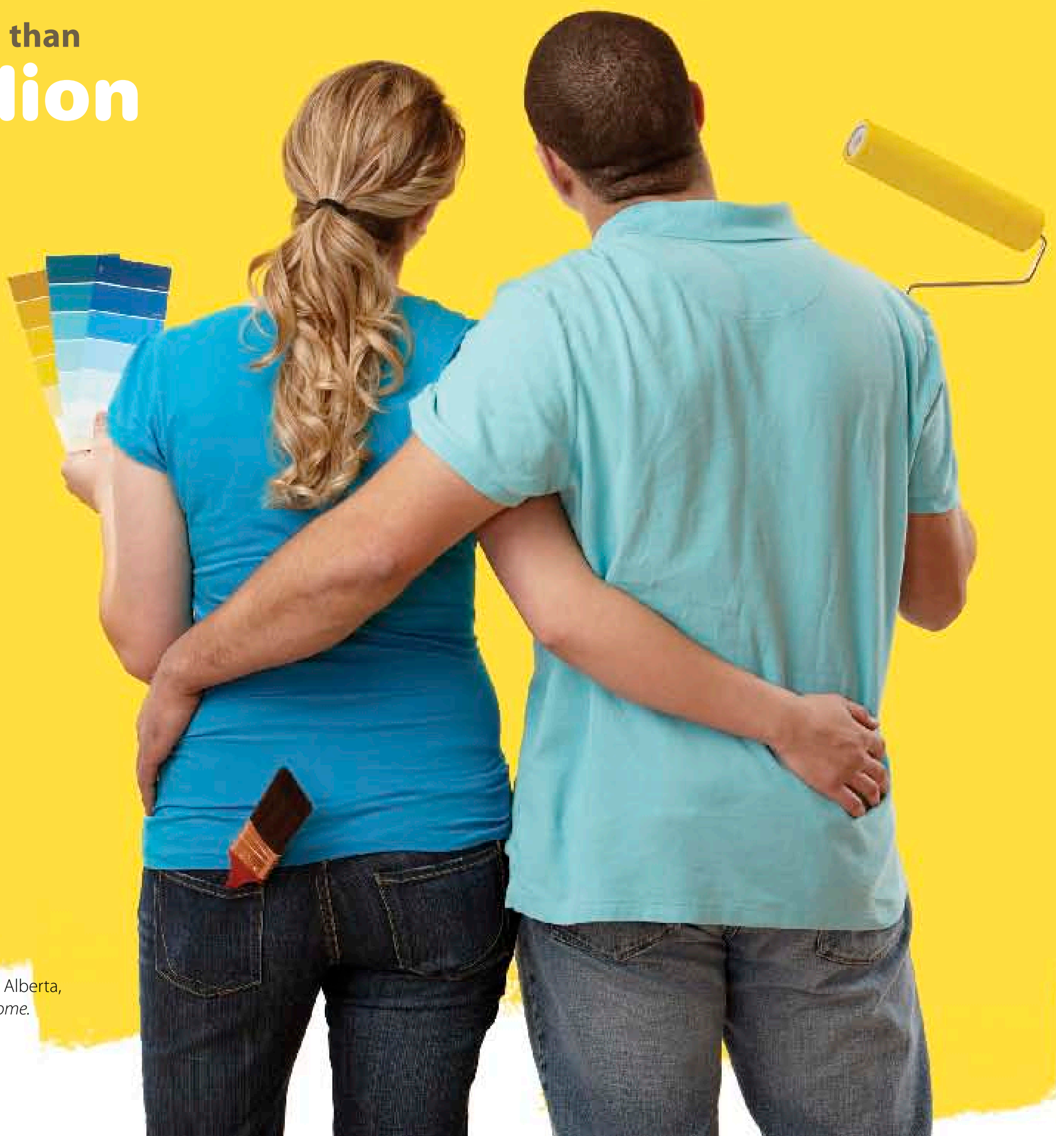

Succombez à nos couleurs

Number of stores
686

Over
16 million
square feet of retail space

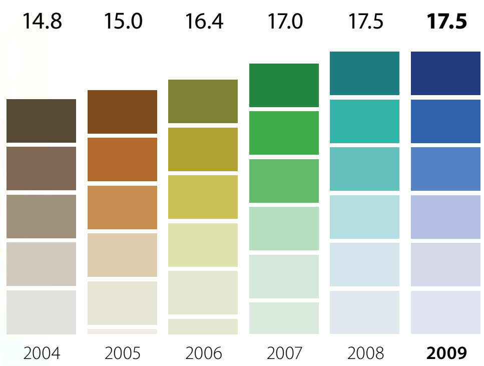
Retail sales of more than
$6.0 billion

Close to
30,000
employees



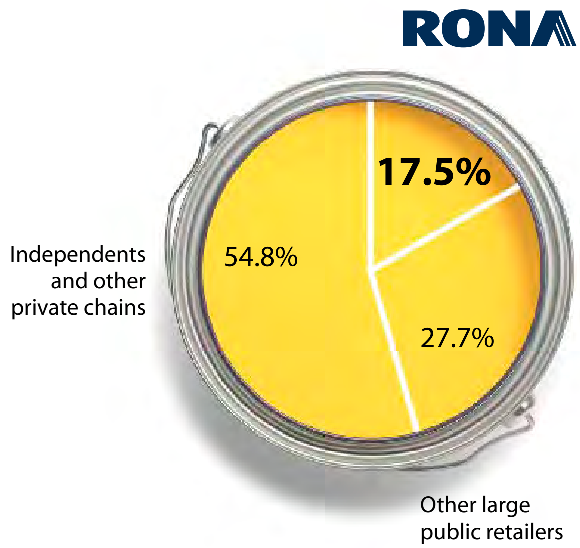
On the front cover:
Krystle Cottrell and Vernon McCarty from Alberta, winners of the first season of *My RONA Home*.

RONA's market share in Canada since 2004* (%)



*Source: Industry sources and management estimates.

Canadian renovation — construction market*



RONA

686 STORES OF MULTIPLE FORMATS

rona.ca

STORES	77 BIG-BOX	330 PROXIMITY	239 SPECIALIZED-CONSUMER	40 SPECIALIZED – COMMERCIAL AND PROFESSIONAL
233 CORPORATE	RONA, RONA HOME & GARDEN, RONA L'ENTREPÔT, RÉNO DÉPÔT	RONA, TOTEM	RONA, STUDIO	COUPAL, DICK'S, NOBLE TRADE
22 FRANCHISE	RONA	RONA	RONA	
431 AFFILIATE		RONA	RONA BOTANIX	

DISTRIBUTION NETWORK (9 centres): 2,131,000 sq. ft.

Boucherville, QC – Terrebonne, QC – Saint-Hyacinthe, QC – Halton Hills, ON
Calgary, AB – Calgary, AB (TOTEM) – Hopewell, AB – Edmonton, AB – Surrey, BC

READY for the New World

With indications the economy is on the mend, a re-energized RONA is ready to focus on renewed growth in a post-recession market environment that will be defined by a new generation of consumers.

Phase 2 of the Company's 2008-2011 strategic plan, the New World program, embodies the trademark drive and entrepreneurial spirit that have served RONA so well over its 70-year history — and remain key to its continued growth and success.

Innovative new store concepts, new private-label and controlled brands, new product categories, a new customer loyalty program and new training initiatives are all designed to enhance the customer experience and help drive targeted, profitable growth. Armed with a strong balance sheet and investment-grade credit rating, the Company is also ready to pursue potential acquisition targets that meet its criteria — and it has introduced a unique succession-planning program designed to attract next-generation dealer-owners to the RONA banner.

Of course, the Company also will be keeping an eye on the bottom line, striving for continuous improvement in terms of costs and productivity gains while delivering on its commitment to become the acknowledged industry leader in sustainable development.

No matter how you look at it, RONA really is ready for the New World.

Our mission

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

Our values

Service
Unity
Respect
Search for the common good
Sense of responsibility

2009 HIGHLIGHTS

STUDIO by RONA

STUDIO by RONA banner targets discerning consumers, designers and professionals

— First three stores opened in Montreal region

RONAdvantage program leveraged renovation tax credits

— Attracts $140 million in renovation projects

New stores built to LEED standards

— Higher air quality, lower energy consumption

Saint-Georges, Qc

Unique succession planning program unveiled

— Eases way to acquire stores for next-generation entrepreneurs

PEP program yields significant gains

— Increased margins and reduced costs

$172.5-million equity issue completed in June

— Reflects continued investor confidence

70th birthday celebrations underscore RONA's staying power

— Strong track record with constant focus on future development

MAPLE LEAF SPORTS + ENTERTAINMENT

RONA scores five-year sponsorship deal with Maple Leaf Sports & Entertainment

— Leafs, Raptors, Marlies and Toronto FC

Expansion of private-label and controlled brands continues

— Additions include RONA ECO paints and HAUSSMANN power tools

HAUSSMANN

FINANCIAL HIGHLIGHTS

Years ended December 27, 2009, December 28, 2008 and December 30, 2007
(in thousands of dollars, except data relating to earnings per share, diluted earnings per share, number of shares and ratios)

	2009	2008	2007
RESULTS OF OPERATIONS			
Sales	**4,677,359**	4,891,122	4,785,106
Percentage increase	**(4.4)%**	2.2%	5.1%
Operating income (EBITDA) excluding unusual items	**346,803**	376,951	383,821
Operating income (EBITDA)	**332,994**	364,729	383,821
Operating income margin (EBITDA/Sales) excluding unusual items	**7.4%**	7.7%	8.0%
Operating income margin (EBITDA/Sales)	**7.1%**	7.5%	8.0%
Net earnings excluding unusual items	**147,829**	167,494	178,645
Net earnings	**138,252**	156,451	178,645
Diluted earnings per share excluding unusual items	**$1.19**	$1.44	$1.53
Diluted earnings per share	**$1.11**	$1.34	$1.53
Cash flows from operating activities	**282,774**	347,487	268,327
INVESTMENTS			
Business acquisitions	**3,734**	4,824	228,502
Fixed assets and intangible assets	**161,899**	196,145	233,662
Fixed assets and intangible assets as percentage of sales	**3.5%**	4.0%	4.9%
CAPITAL STRUCTURE			
Total assets	**2,749,883**	2,478,918	2,459,138
Shareholders' equity	**1,779,039**	1,468,225	1,306,272
Long-term debt	**440,520**	494,171	636,776
Net indebtedness (long-term debt plus bank loans minus cash)	**206,474**	490,294	653,484
Net indebtedness/Total capital	**10.4%**	25.0%	33.3%
Net indebtedness/Operating income	**0.6x**	1.3x	1.7x
SUPPLEMENTAL INFORMATION			
Shares outstanding	**129,653,383**	115,819,699	115,412,766
Stock price - closing	**$15.38**	$11.29	$17.18
Market capitalization	**1,994,069**	1,307,604	1,982,791
Enterprise value	**2,200,543**	1,797,898	2,636,275
Enterprise value/Operating income ratio	**6.6x**	4.9x	6.9x
Price/Earnings Ratio	**13.9x**	8.4x	11.2x
Price/Cash flows Ratio	**7.1x**	3.8x	7.4x
Credit Rating (as at December 27, 2009)			
DBRS: BBB (stable outlook)			
Standard & Poor's: BBB- (negative outlook)			

Note: The financial highlights for 2008 and 2007 have been restated to reflect the application of Section 3064, "Goodwill and intangible assets" of the Canadian Institute of Chartered Accountants' (CICA) Handbook.

*Excluding unusual items.

LAYING THE FOUNDATIONS FOR RENEWED GROWTH AND INCREASED SHAREHOLDER VALUE

Jean Gaulin, Chairman of the Board

THE BOARD OF DIRECTORS essentially has two main responsibilities – providing strategic advice and exercising effective oversight of the Company's affairs. During 2009, we worked hard on both fronts — to maintain high standards of corporate governance, while supporting management's implementation of a strategy that reflected our shared view of how best to respond to the lingering recession, setting the stage for renewed growth and increased shareholder value.

Strict management of the balance sheet and the successful completion of an equity issue in a difficult market environment enabled the Company to end 2009 with the financial flexibility required to capitalize on growth opportunities likely to arise as the economy rebounds, while maintaining its investment-grade credit rating — which the Board regards as crucial.

President and CEO Robert Dutton and his team are to be commended for a strong performance, given the challenging context. By delivering on the PEP (Productivity, Efficiency, Profitability) program, they were able to limit the impact of the recession and strengthen the organization, while developing innovative marketing and merchandising concepts that helped get RONA ready to meet changing consumer demands in the post-recession "New World".

Focus on succession

It was a year of renewal for the RONA Board as well. We welcomed two new members, Richard Fortin and Robert Paré, who were first elected at the April 2009 annual general meeting. Their appointments reflect the effectiveness of the succession-planning policies and procedures we have put in place to help us identify and recruit highly-qualified, independent candidates whose competencies and expertise complement those of existing directors and further strengthen the Board.

Mr. Fortin, current chairman and former CFO of Alimentation Couche-Tard Inc, a leading convenience store operator, brings to the table a wealth of expertise in finance, retailing and franchising. Mr. Paré, a partner at the Montreal-based law firm Fasken Martineau DuMoulin LLP who also serves on the board of a major furniture and appliance retailer, brings vital expertise in corporate law as well as knowledge of retailing.

Upon joining our Board, the new directors received in-depth briefings from the Chairman and the President and Chief Executive Officer with regard to RONA's strategic direction and from members of the senior management team with regard to all the various aspects of the Company's operations. I should note, too, that senior management makes regular presentations to the full Board on key elements of Company business, in keeping with our policy of continuing education for directors.

Due to retirements, two of the four Board committees received new chairs in 2009: James Pantelidis now chairs the Human Resources and Compensation Committee, while the undersigned chairs the Nominating and Governance Committee.

Succession planning and talent development with regard to the Company's executive officers will be a continued focus for the Board going forward. In this and other areas, we will be working with RONA management to help ensure the success of Phase 2 of the Company's 2008-20011 strategic plan — the New World Program — while maintaining the independence that is a prerequisite for transparent, effective oversight.

In closing, I wish to express my gratitude to my fellow directors for their wise counsel and for shouldering heavy workloads throughout the year, particularly at the committee level. I would also like to again thank Robert and his team for a job well done in 2009.

Jean Gaulin
Chairman of the Board of Directors

Robert Dutton, President and CEO

READY FOR THE RECOVERY
READY FOR THE NEW WORLD AHEAD

BUSINESSES WITH STAYING POWER know how to do two things well: deal with the issues of the day, no matter how difficult; and continue to prepare for the future, no matter how troublesome the present may be.

RONA turned 70 in 2009. In every one of those 70 years, our Company had to deal with the issues of the day. It weathered recessions, market crises and more. No matter the nature or severity of those short-term issues, RONA has always kept one eye firmly on its long-term future.

Last year was no exception. Economic conditions were tough. We managed the short-term by exercising strict discipline in terms of costs and cash management. But with an eye to the future, we also took major steps to prepare RONA for the economic recovery and for our longer-term development. Successful completion of a $172.5-million equity issue in June 2009 indicated that we can count on continued investor confidence in our growth strategy.

Strategic plan in tune with circumstances
The challenges of 2008 and 2009 did not catch us unprepared. We had anticipated a slowdown — although not a full-blown global recession — and by following our carefully crafted 2008-2011 strategic plan we were able to weather the worst of the storm.

At the core of Phase 1 of that plan was our PEP program – for Productivity, Efficiency, Profitability.

I am very proud of our PEP achievements. Over the past two years, we managed to:

- Improve our gross margin by 123 basis points;
- Cut the level of store losses (shrink) by $8 million;
- Reduce comparable inventories by $168 million;
- Improve the quality of our inventory through a $40-million reduction in slow-moving products;
- Increase the productivity of our distribution centres and reduce logistics and transportation costs by $14 million; while
- Improving the profitability of under-performing stores.

As well, 2009 saw the successful introduction of a new financial suite and a demand-planning system, key elements of a four-year IT optimization program that sets the stage for future growth.

Phase 1 of our strategic plan also produced solid results in terms of sales stimulation. The penetration rate for our private- and controlled-brand products increased from 16% at the end of 2007 to 19% at the end of 2009, and more than $140 million worth of renovation projects were registered with RONAdvantage, our complementary, home-renovation tax-credit incentive program.

More than 900,000 square feet of retail space was added to the RONA network over the past two years. Forty-five dealer-owners were recruited, and some of our existing dealer-owners undertook expansion and renovation projects representing investments of close to $80 million. Twelve new corporate stores opened their doors.

Ready for the New World
Phase 2 of our strategic plan, the New World program, focuses more on renewed growth. Two major initiatives unveiled in late 2009 — the launch of our innovative STUDIO by RONA concept with the opening of three stores in the Montreal area; and the introduction of a unique succession-planning program designed to attract next-generation entrepreneurs to the RONA banner — provided a taste of what is to come.

I wish to emphasize, however, that while Phase 2 calls for renewed growth, we are also striving for continuous improvement in costs and productivity. PEP is ingrained as part of the RONA culture.

As 2010 unfolds, we have seen early indications of an economic recovery. The timing and strength of that recovery remain uncertain; as is the way it will play out in our sector. However, our Phase 2 strategy is flexible enough to adapt to short-term economic twists and turns and, should business conditions improve significantly, the positive impact of the New World program on growth and profitability will be even greater.

As the theme of this annual report suggests, RONA is ready for whatever the future holds.

2010-2011 priorities
In this second phase, our four growth vectors will remain the same as in the past: on one hand, development of the network through new store construction, development of the affiliate network, and acquisitions; on the other hand through customer growth, the term we are now using in place of organic or same-store growth.

Customer growth encompasses two dynamics — attracting more people to our stores, and utilizing our merchandising know-how as well as our qualified staff to ensure that their baskets contain more purchases representing increased dollar volumes when they reach the checkout counter.

During 2010 and 2011, we will focus on strengthening RONA's position in Ontario and the West while continuing to develop markets in Quebec and Atlantic Canada. Priorities include a harmonization of the Ontario retail network under the RONA banner.

Development of the professional and commercial market is another priority. The main vehicle driving growth in that segment is the Ontario-centred Noble Trade banner, which managed to increase its 2009 revenues in a market where overall sales declined.

Customer growth will be stimulated by a variety of marketing and merchandising initiatives, including loyalty programs such as AIR MILES®. RONAdvantage, our incentive program to support home renovation tax credits, proved to be not only a business success, but also a valuable learning experience. This spring, we plan to launch a new integrated tool that will combine elements of RONAdvantage with other existing loyalty programs to provide customers with even more compelling reasons to choose RONA for their renovation needs.

To support network expansion, we also will be enhancing our strong and unique supply chain. We want to ensure that, going forward, RONA retains the capacity to easily absorb new dealers while providing the strongest in-stock positions and best inventory turns.

Broadening our horizons
The excitement of the 2010 Winter Games, in which RONA was a national partner, provided an appropriate kick-off for 2010 — and for our New World program. The Games represent an opportunity to partner with a group of remarkable athletes who share the same sort of passion, discipline and determination as our RONA team.

Moreover, we are confident that our investment in the Games — as well as a new long-term sponsorship with Maple Leaf Sports & Entertainment — will produce tangible returns, increasing RONA's profile and further enhancing the drawing power of a brand that opinion polls already ranks among the most trusted names in Canadian business.

Although renewed growth lies at the heart of our Phase 2 strategy, the New World program is also about broadening our horizons. Just as Vancouver 2010 reached out to the world, so too is RONA as we gear up for renewed growth. Staying abreast of strategies being deployed by top industry players overseas, keeping up to date on new business models, and gaining a better understanding of consumer behaviour in different cultures will enable us to sharpen RONA's competitive edge and be alert to new opportunities.

The retail universe is rapidly changing, which provides opportunities for those who embrace change and are well prepared.

Our New World program is designed to help guide RONA's transition to a post-recession era where retailing will be transformed to reflect both a new generation of consumers and a new generation of merchants. Accordingly, the program will initially involve two key components — the customer experience, and talent and succession management.

Enhancing the customer experience
Customer experience occupy a permanent worksite at RONA, where the focus is on continual adjustments and fine-tuning to adapt to ever-changing tastes and demands.

RONA market researchers recently completed an in-depth study of consumer preferences and expectations in hardware-renovation that took us in a new direction with regard to customer segmentation. Rather than looking at individuals, they examined the behaviour of households and their preferences and attitudes toward renovation. The results have given us a much clearer understanding of changing consumer expectations — and how we can meet them.

Among the things we learned is that today's consumers are demanding higher quality in the products they buy and better value for money. RONA intends to capitalize on those demands with a revamped private-label strategy designed to increase customer loyalty while further differentiating us from the competition.

Sustainability: a key consideration

Another striking fact is that all the customer groups say they are sensitive to the environmental implications of their activities and the products they buy — which underscores the benefits of RONA's commitment to becoming the Canadian industry's recognized leader in sustainable development.

Our adoption of the stringent life-cycle approach to selecting and labelling environmentally friendly products, our forward-thinking wood products procurement policy, our enlightened synthetic-pesticides policy, and our pursuit of LEED green-building certification for new stores are just a few concrete examples of how we are working to make good on that commitment. RONA's exemplary efforts in this area earned the company widespread recognition and commendation again this past year.

Talent development and succession management

The quality of the customer experience also depends on the availability of capable, motivated store staff. Indeed, there is a direct correlation between well-trained staff and increased sales. That helps explain why we made talent development and succession management the other major component of our New World program.

As RONA's history attests, we have been particularly fortunate in the quality of our managers and employees. To build on that legacy, we continued to invest in talent development and succession planning during 2009.

RONA's succession-related initiatives address organizational needs in considerable depth, from senior management ranks to store managers.

Our new Altitude training program, launched in partnership with a major Canadian university, was specifically tailored to meet RONA's needs in terms of grooming store and regional managers for greater responsibility. It provides high-level instruction in every aspect of retail management. We also keep up-to-date "talent cards" on managers and department heads, which enable us to monitor their development and gauge their strengths and limitations with respect to opportunities for advancement.

Succession management is just as important in our network of affiliate and franchise stores — maybe more so, given the preponderance of family-owned businesses in what remains a highly fragmented industry. We realized that if we wished to sustain the strong growth of our network — and RONA's position as the leader in industry consolidation — we needed a structured approach that would help us identify and attract the entrepreneurs of tomorrow and provide them with the tools they require to succeed.

Fortunately, the RONA network is well stocked with capable young people eager to become storeowners. Their enormous potential was driven home to me last summer, when I directed the first two "STEP" workshops for 20-to-35-year-olds from across Canada. Managers, affiliate dealer-owners and those aspiring to be one or the other got together with company executives to discuss the future – both RONA's future and their own prospects within the organization. It was a fascinating experience. I could not help but be excited by their intelligence, energy, solid values and worldly perspectives.

The New World program helps prepare us for a retailing universe where these young people will be in charge.

Our unique new succession-planning program makes it easier for family members of independent dealers, RONA managers or aspiring entrepreneurs from outside the Company to acquire stores. The program includes a $100-million special fund, supported by RONA, affiliated dealers and leading Canadian financial institutions, to facilitate store-acquisition transactions.

Looking ahead

Despite lingering economic uncertainty, the market continues to present RONA with attractive growth opportunities: there is ample room for further industry consolidation and we can also capture increased market share through customer growth, by offering a better shopping experience than the competition.

Thanks to the success of the PEP program and other 2009 initiatives, RONA today is a well-oiled machine with the financial flexibility required to capitalize on those opportunities and support renewed growth. Our teams are mobilized and we know precisely where we want to go. In other words, we are ready for the New World.

Acknowledgements

Each and every one of the 30,000 men and women who make up the RONA network contributed to our success in the very challenging business environment that characterized 2009. Their hard work and commitment are the very essence of RONA. On behalf of the Board of Directors and management, I want to sincerely thank them all.

I also wish to acknowledge the vital contributions of fellow Board members, both for the quality of their advice and the high expectations that helped motivate us. Their continued support is essential to our success and long-term development.

Finally, a heart-felt thank you to my colleagues on the management team for the loyalty and determination they demonstrated throughout a difficult year. We could not have achieved what we did without them.

Robert Dutton

Robert Dutton
President and CEO

DISCIPLINED APPROACH, SUCCESSFUL EXECUTION ENSURE RONA IS READY TO CAPITALIZE ON RECOVERY

RONA's strategic imperatives

The actions taken in 2009 — as well as the key initiatives planned for 2010 — are fully aligned with RONA's four strategic imperatives:

- to be the destination of choice for the complete housing needs of all Canadians;
- to offer the best service and best shopping experience for retail, professional and commercial customers;
- to be the most efficient and innovative player in the industry; and
- to be the industry's sustainable development leader.

READY for the New World

As 2010 unfolds and the economic recovery takes hold, RONA is moving into the accelerated growth phase of its 2008-2011 strategic plan with exciting initiatives that reflect new opportunities, new trends and the expectations and values of a new generation.

Two major initiatives unveiled late in 2009 — the launch of our innovative new STUDIO by RONA concept and the introduction of a unique Succession Planning program designed to attract next-generation entrepreneurs to the RONA banner — provide a taste of what is to come.

RONA's New World program entails re-accelerating growth of the four vectors that have made the Company a success, in an integrated, highly disciplined fashion that will further its role as the industry consolidator in Canada.

READY

"We have worked hard to enhance virtually every aspect of our operations and build a solid foundation for the future. As a result, today's RONA is a better retailer. We really are ready for the New World."

— **Robert Dutton,** President and CEO

HAVING CORRECTLY ANTICIPATED AN ECONOMIC DOWNTURN — and factored that scenario into Phase 1 of its 2008-2011 strategic plan — RONA succeeded in largely offsetting the impact of the recession and ended 2009 well positioned to embark on its Phase 2 New World program and capitalize on the forecast recovery.

Ongoing cost reductions and efficiency improvements under the PEP program (Productivity, Efficiency, Profitability) enabled the Company to further increase its gross margin during 2009, despite a decline in same-store sales, while significantly reducing inventories and logistics costs. As well, RONA successfully implemented new financial and demand-planning systems, part of a strategic optimisation of the IT infrastructure, and was able to strengthen its balance sheet and reduce the interest expense on its long-term debt and bank loans.

The New World program calls for a renewed focus on growth for 2010-2011, in a post-recession era where retailing will be transformed to reflect both changing patterns of consumer behaviour and a new generation of merchants.

Gearing up for growth

As the organization gears up for growth, new store concepts have been developed, new points of sale opened and new merchandising initiatives readied for implementation. At the same time, though, the Company is striving for continuous improvement in terms of costs and productivity, PEP is now ingrained as part of the RONA culture.

Additions to the corporate and franchise retail network in 2009 included new proximity stores in Alberta and Quebec and the rebuilding and expansion of a Réno-Dépôt big-box in Quebec. An extensive two-year program that involved rejuvenation of the entire 16-store Réno-Dépôt chain in Quebec was completed. RONA also continued to expand its presence in the Atlantic Provinces with the acquisition of Bishop's Building Center in Bay Roberts, Newfoundland.

Growing RONA's presence in the professional and commercial market was another important focus of 2009, particularly in Ontario, where the Noble Trade banner is adding HVAC (heating, ventilation, air conditioning) to its core plumbing product line-up and managed to post increased sales in the face of an overall market decline.

Partnering with dealers

Despite the difficult business environment that characterized 2009, RONA recruited 14 new affiliate dealer-owners with combined annual sales in excess of $30 million, while established members of the dealer network undertook 96 renovation and expansion projects representing a total investment of close to $50 million. In the past two years, 45 independent dealer-owners were recruited, representing annual sales of $164 million, and RONA's affiliates invested close to $80 million for renovation and expansion projects.

Additional information on the activities and agendas of the Company's four growth vectors — customer growth, development of the affiliated dealer network, new store construction and acquisitions — can be found in the following pages.

"With PEP, we proved we can deliver on our commitments and that we are able to manage well not only in a high-growth environment but also in difficult circumstances."

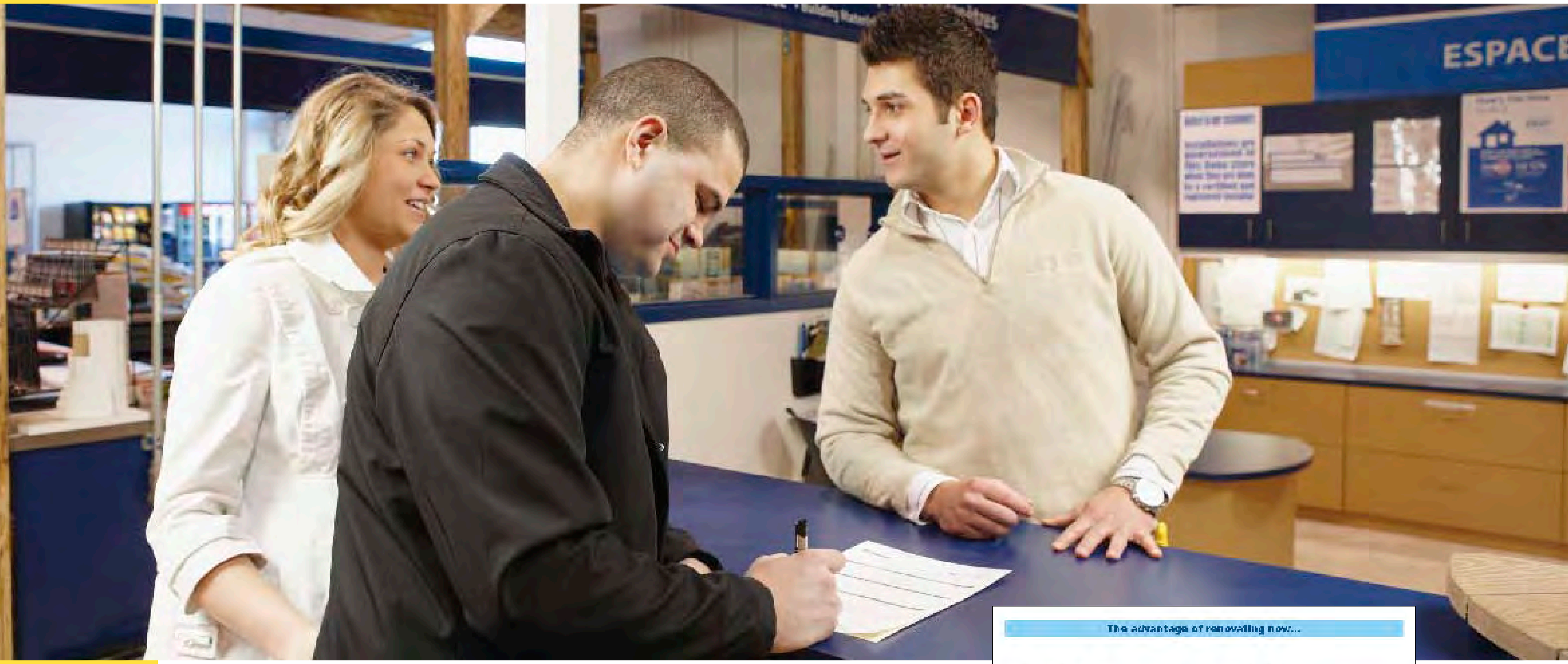
— **Claude Guévin,**
Executive Vice President and CFO

PEP program main achievements

	2009	2008	**Total 2008-2009**
Gross margin - basis points	↑ 34	↑ 89	**↑ 123**
Comparable inventories	↓ $50M or ↓ 7%	↓ $118M or ↓ 14%	**↓ $168M or ↓ 20%**
Logistics costs	↓ $8M	↓ $6M	**↓ $14M**

PEP

CUSTOMER GROWTH



Ensuring that our stores and people are ready

THE YEAR 2009 saw the implementation of major marketing, merchandising and operational initiatives aimed at increasing traffic and sales, enhancing the customer experience and optimizing the performance of RONA's retail network. It is all about stimulating "customer growth", the term the Company is now using in place of organic or same-store growth.

Quick rollout of RONAdvantage

During the first quarter, RONA was quick to respond to newly introduced Quebec and federal Home Renovation Tax Credits with the rollout of its RONAdvantage program, which provided consumers with rebates in the form of gift cards equivalent to 10% (to a maximum of $1,000) of their expenditures on materials or installation services for eligible projects.

A stipulation requiring RONAdvantage purchases to be paid for with the RONA VISA Desjardins card contributed to enhanced customer loyalty and an increase in cardholders. Combined with on-going customer incentives, including AIR MILES® reward miles and free expert advice through the Project Guide service, RONAdvantage made a compelling case for consumers to choose RONA for their renovation projects. The program attracted close to 18,000 participants and generated over $140 million in sales — a substantial portion of which represented incremental revenue. Installation and Project Guide sales increased more than 15%, thanks in large part to the RONAdvantage program.

With the Home Renovation Tax Credits which expired in early 2010, there are plans to introduce a new RONA integrated loyalty program designed to further increase customer allegiance and help Canadians realize their renovation projects.

70th Birthday campaign

A successful multi-media campaign in September, geared to RONA's 70th birthday, gave sales another significant push at a time when the effects of the recession on consumer spending were still evident.

"The success of the PEP program has given us the ability to better manage the entire product life cycle to achieve increased margins and reduce obsolescence — in short, it enabled us to become better retailers."

— **Normand Dumont,** Executive Vice President, Merchandising

Enhancing the supply chain

Demand planning and the supply chain are crucial elements of the on-going PEP program (Productivity, Efficiency, Profitability). Successful initiatives in these areas enabled the Company to provide improved service to stores during 2009, while significantly reducing inventories and logistics costs. Comparable inventories were reduced by more than $50 million, which translates into a 7% reduction. Logistics costs were trimmed by $8 million as the result of improved efficiencies in transportation and distribution channels.

Gross margin increased

Another noteworthy achievement under the PEP program in 2009 was the 34-basis-points increase in gross margin. This increase stemmed from a significant reduction in the level of losses from "shrinkage", better management of product categories, further improvements in terms and conditions from our suppliers, and reduced transportation costs.

Supply-chain optimization and gross margin improvement will remain key elements of RONA's continuous-improvement initiatives in the years ahead, in order to achieve the Company's goal of being the most efficient retailer and distributor in its industry.

Réno-Dépôt re-launch complete

The year 2009 also saw completion of the re-launch of the Réno-Dépôt banner in Quebec, which entailed an average investment of $2 million per store supported by special marketing and advertising initiatives. The investment is evidently paying off: employees are re-energized and the renovated Réno-Dépôt outlets are outperforming similar-sized stores elsewhere in the network.

Focus on Ontario and West

During 2010 and 2011, the team will focus on strengthening RONA's position in Ontario and the West while continuing to develop established markets in Quebec and Atlantic Canada. Priorities include a harmonization of the Ontario retail network under the RONA banner, which will involve new signage as well as major renovations to some Lansing and Cashway stores, leveraging best practices developed during the Réno-Dépôt rejuvenation program.

NEW INSIGHTS INTO CUSTOMER BEHAVIOUR

RONA's new-generation store concepts, new product categories and expanded private-label and controlled brands all take into account the Company's latest proprietary research into consumer preferences and expectations. A recent in-depth study identified six distinct categories of households — three of which account for almost 75% of hardware-renovation purchases. Their clearly expressed appetite for higher quality products and outstanding value is reflected in RONA's increased focus on private-label products.

Shanghai office supports push on private-label and controlled brands

THE MARCH 2009 OPENING of a Shanghai office facilitates RONA's goals of doubling its direct imports from Asia over the 2008-2011 period and continuing to expand its private-label and controlled-brand product lines. These products yield superior margins and profits. They also help build customer loyalty, while contributing to the network's independence from the national brands sold by many competitors.

The addition of new private-label and controlled-brand products, including the HAUSSMANN, HAUSSMANN XPERT and PRO-PULSE lines of power and garden tools, helped drive growth of RONA's private and controlled brands from 17% to more than 19% of sales in 2009, well above the target for the year. Given this positive momentum and the introduction of four more controlled brands in 2010 — FACTO, UBERHAUS, UBERHAUS DESIGN and UBERHAUS PRO — the Company has increased its longer-term private-label penetration target from 20% to 24% of sales by the end of 2011.

884 new products and 250 new service points

RONA added 884 new private-label and controlled-brand products during 2009, bringing the total to almost 3,500 different items. In addition to the new lines mentioned above, the RONA ECO and eco-responsible lines were considerably expanded.

The Company has partnered with Mecanair to provide warranty support and repair services for its private-label and controlled-brand electric and portable tools, through a cross-Canada network of 250 service points. As well, RONA will leverage this partner's expertise for pre-proofing the design and quality of its private-label tools.

ARENA alliance brings stronger purchasing power

Working through the ARENA purchasing alliance, the Company participated in a number of category reviews during 2009 that enabled it to realize double-digit cost-reductions. RONA expects to continue these reviews in 2010, which will lead to additional reductions in costs and, by extension, further improvement in margins.

> **"Vancouver 2010 provided a great opportunity to showcase the strengths of our Company, to demonstrate that we are proudly Canadian and committed to helping make this country a better home for everyone."**
>
> **— Claude Bernier,** Executive Vice President, Marketing and Customer Innovations

New product categories include decorative furniture, work clothing

NEW PRODUCT CATEGORIES FOR 2010, including decorative furniture and work clothing, were well received by store managers and dealers attending RONA's annual Spring Show event in November.

Adding furniture to the product offering significantly broadens the scope of the highly successful RONA by Design program. The competitively priced furniture collection includes a complete line for the living room, dining room and bedroom — each supported by RONA by Design ideas. For 2010, consumers will be able to choose from among 30 great project ideas for each of the three designer trends: *Global Village, Oasis and Spirit.*

Two other new categories — automotive products and small appliances — are being introduced exclusively for affiliated dealers, enabling them to broaden their reach and better serve customers in smaller communities.

MLSE and 2010 Winter Games sponsorships raise RONA's profile to new heights

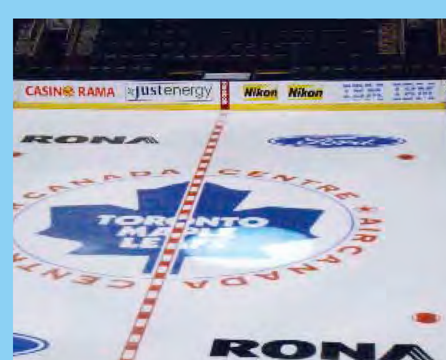
RONA'S PROFILE reached Olympian heights in February 2010. As a National Partner of the Vancouver 2010 Olympic and Paralympic Winter Games, the Company sponsored special daily coverage of Canadian athletes' performances throughout the Games.

A powerful "Made in Canada" advertising campaign designed to evoke a sense of Canadian pride and belonging towards RONA ran on six television networks — CTV, TSN, Sportsnet, RDS, RIS and V — and two websites, CTV and RDS - reaching millions of viewers across the country.

In keeping with the Company's commitment to sustainability, RONA's involvement in the 2010 Winter Games was designed to create lasting benefits. It focused on four key facets: supporting Canadian athletes, helping build the Olympic venues, training at-risk youth and engaging RONA employees. *(Additional information can be found in the Sustainable Development section of the Annual Report.)*

Leafs, Raptors, Marlies and Toronto FC
RONA's visibility in the key Greater Toronto and Ontario markets got a major-league boost in September with the announcement of a new five-year partnership with Maple Leaf Sports & Entertainment. RONA is now the Official Home Improvement Retailer of the Toronto Maple Leafs (National Hockey League), Toronto Raptors (National Basketball Association), Toronto FC (Major League Soccer) and the Toronto Marlies (American Hockey League).

As part of its long-standing commitment to Canadian sports, RONA also is a National Partner of the Canadian Football League (CFL). Players on all eight CFL clubs wear the RONA logo on their game jerseys.



'Doing it Right' program focuses on staff mobilization and training to enhance the customer experience

RONA'S PEOPLE AND CULTURE AND OPERATIONS TEAMS collaborated during 2009 on staff training and development initiatives to enhance the customer experience.

The roles of store managers were redefined, enabling them to spend less time in the office and more time on the sales floor. Another element of the Doing it Right program entailed reviewing the responsibilities of store staff to better differentiate the roles of stock clerks, sales advisors and product specialists, in order to optimise the payroll investment and ensure that the right people are being deployed at the right times to better serve customers. A revamped Operations structure put responsibility for proximity and big-box stores together (except in Ontario) for increased synergies.

Growing the commercial and professional segment

DEVELOPMENT OF THE COMMERCIAL and professional market is one of the priorities identified in Phase 2 of RONA's 2008-2011 strategic plan.

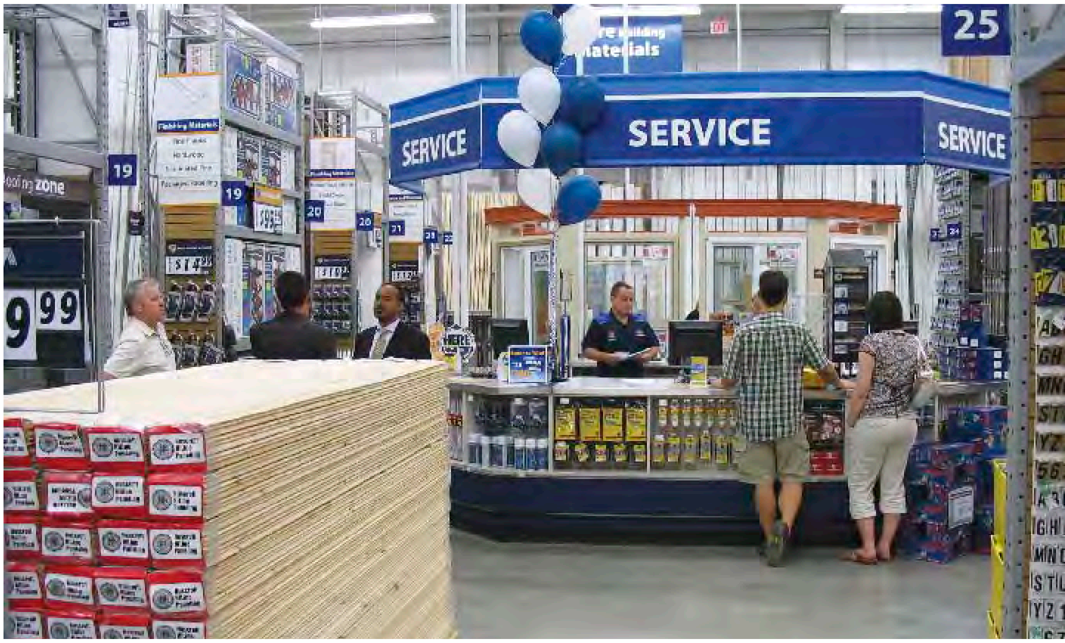
The main vehicle driving growth in this segment is the Ontario-centred Noble Trade banner, which managed to increase its 2009 revenues in a market where overall sales declined. Completion of a 188,000-square-foot addition to the Concord, Ontario warehouse provided the enhanced distribution platform required to support increased plumbing volumes as well as new HVAC and building- maintenance initiatives.

The Noble Trade team is mandated to ratchet up volumes in the building-maintenance category by pursuing business on a larger scope and scale that includes commercial buildings and office towers as well as residential. Going forward, this will create enhanced synergies with retail and help increase commercial and professional sales at the Company's big-box stores. In fact, those synergies helped generate a 15% increase at the professional counters of big-box stores in Ontario during 2009.

DEVELOPMENT OF THE AFFILIATED DEALER NETWORK

"We are fully mobilized to help our dealers grow and capitalize on the economic recovery."

— Jean-Luc Meunier, Senior Vice President, Affiliate Dealer-Owner Network Development



New 52,000 square-foot proximity store opened in Grande Prairie, Alberta.

Development of affiliate dealer-owner network remains a key driver of growth

RONA'S ROOTS LIE IN ITS NETWORK of affiliate dealer-owners, and the recruitment of new dealers remains a key driver of growth. The underlying goal is to combine the strength of its affiliate and corporate networks in order to grow faster.

To that end, RONA encourages established and new affiliate dealer-owners to expand their businesses by opening new stores, enlarging existing points of sale and undertaking major renovation and re-merchandising initiatives that reflect changing market needs.

Although RONA and potential new affiliate dealer-owners were understandably focused on meeting the challenges posed by the recession during 2009, 14 dealers with combined annual sales of more than $30 million were added to the network. Five of the new affiliates are located in the West, four in Ontario and five in Quebec.

Established members of the affiliate dealer-owner network also contributed to RONA's growth, undertaking 96 renovation and expansion projects representing a combined investment close to $50 million. The Company is proud of the affiliates' performance and their confidence in RONA, notwithstanding the difficult business environment.

Affiliate-initiated projects, carried out with the support of RONA's development team, included a new 52,000-square foot proximity store, in Grande Prairie, Alberta, and a 25,000-square-foot store in Nanaimo, British Columbia.

“One of RONA’s great strengths is the ability of our distribution network to easily absorb new stores.”

— **Paul Jovian,** Senior Vice President, Supply Chain

Marie-Pierre Breton, daughter of affiliate dealer-owner, is the store manager of Saint-Narcisse-de-Beaurivage, Quebec.

Vincent and Jean-Marc Legault, son and father, affiliate dealers, RONA Le Quincaillier de la Promenade, Montreal, Quebec.

Unique succession-planning program underscores strong commitment to dealers

RONA’S DEALER NETWORK reflects the aging demographics of the Canadian population at large. The Company realized that if it wishes to sustain the strong growth of the network — and RONA’s role as a leader in industry consolidation — it needs to identify and attract bright, dynamic young people and provide them with the tools they require to succeed as entrepreneurs.

The issue of succession can be particularly problematic for family-owned businesses that are typical of the highly fragmented hardware and home-renovation industry. A unique succession-planning program introduced in November 2009 makes it easier for family members of independent dealers, RONA employees or aspiring entrepreneurs from outside the Company to acquire stores.

The comprehensive program encompasses three aspects: personal, legal and financial.

From the personal aspect, key elements range from the identification of potential successors to training and mentoring new owners.

From a legal aspect, the program includes referral resources for the drafting of contracts and agreements.

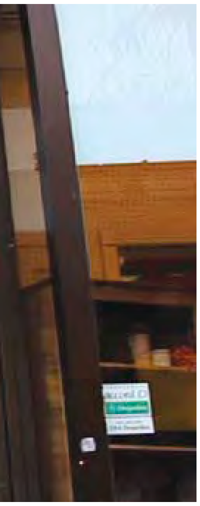
Financial dimensions cover the preparation of business plans, tax planning and the financial structure of the transaction.

The program also includes a $100-million special fund, supported by RONA, affiliate dealer-owners and leading Canadian financial institutions to facilitate store-acquisition transactions.

Joining RONA brings major benefits

Joining the RONA network provides independent dealers with the opportunity to grow their businesses at a faster pace. Major benefits include:

- strong brand awareness and the best marketing program in the industry;
- a unique succession-planning program;
- strong retailing expertise in developing new concepts, adapting product categories and innovative merchandising;
- outstanding private-label and controlled brands to help build customer loyalty;
- the largest loyalty program in the industry - AIR MILES®;
- best purchasing conditions;
- strong in-stock position and access to a wide selection of products; and
- limited capital requirement, leaving more flexibility for expansion and renovation.



Disciplined approach aims to build critical mass in target markets

AS THE ECONOMY RECOVERS and RONA prepares to implement the accelerated growth phase of its strategic plan, the dealer development function has been re-organized under the leadership of Senior Vice President, Jean-Luc Meunier.

The team is taking a disciplined approach to recruitment, targeting high-potential stores with a primary focus on markets where the Company is already well established but can achieve greater market share. The aim is to establish RONA as the main player in these markets, through the creation of strong regional dealers.

To better facilitate recruitment and vital dealer-support activities, the department has been restructured according to key functions: recruitment and succession planning; consolidation; and operations.

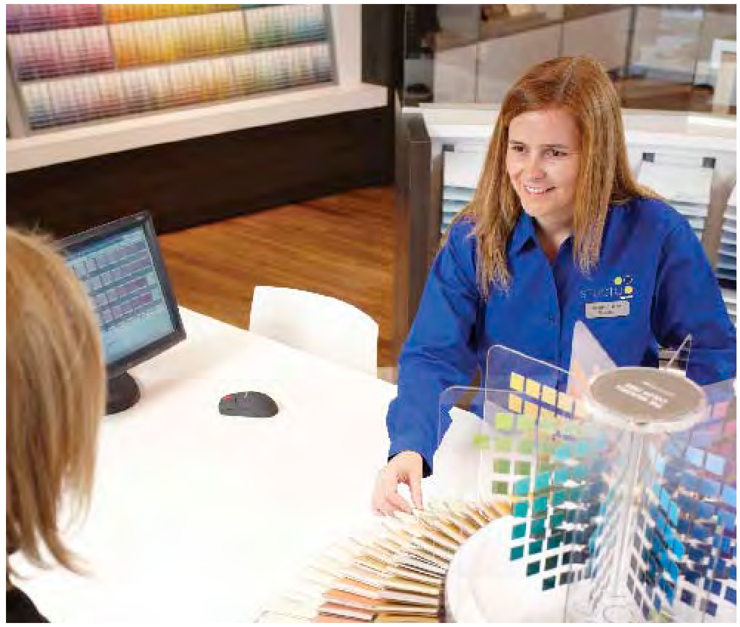
Windsor provides textbook example of successful market consolidation

IN WINDSOR, ONTARIO, the owners of Angelari Building Supplies closed their two affiliate stores in 2009 to become partners and managers of a RONA big-box — bringing along their experience and expertise, established business volumes and knowledgeable employees. This is a textbook example of the Company's new integrated approach to store construction and dealer development, which emphasizes market consolidation.

Successful advance efforts to consolidate local markets and transfer significant volumes of business to new, larger points of sale can ensure a much faster return on the multi-million-dollar investment required to build a new store.

From left to right: Mike McCallum, Matthew McKay, Terry Ray.

NEW STORE CONSTRUCTION



STUDIO by RONA openings signal transition to renewed growth

WHILE CONTINUING TO EXPAND its coast-to-coast retail network of big-box and proximity stores, the Company reached a strategic milestone in the fourth quarter of 2009 with the launch of its new STUDIO by RONA concept.

Consumers

Interior designers

Professional painters

The simultaneous openings, in Quebec, of the first three STUDIO stores signalled the transition between Phase 1 of the Company's 2008-2011 strategic plan — the PEP program, focused on optimization — and Phase 2, the New World program, which focuses on renewed growth.

Situated in Saint-Léonard, Vaudreuil and Rosemère, the new stores, which entailed an investment of $1.5 million each, are the initial steps in a series of planned openings in Quebec and elsewhere in Canada. The stand-alone stores feature a contemporary open look, with up to 8,000 square feet of space defined by distinct service zones for each customer group. STUDIO by RONA has also elicited a lot of attention from affiliate dealer-owners interested in incorporating adapted elements of this new concept into their existing stores.

A new direction in deco-renovation

The STUDIO by RONA concept is a Canadian first, designed to meet the needs of a new segment of consumers as well as interior designers and professional painters, all under one roof.

Shoppers benefit from personalized service, free advice from on-site staff designers and ongoing coaching and support for the duration of their projects. As well as paint and accessories, STUDIO offers a wide selection of wallpaper, floor coverings, mouldings, window treatments and bedding fabrics — all at highly competitive prices made possible by RONA's purchasing power.

At the heart of the STUDIO by RONA experience is the colour centre, entirely devoted to colour consultation, selection and creation. Customers have access to the widest array of large-size (8.5 by 11-inch) paint swatches on the market — 800 of the latest colours — and a software program designed exclusively for RONA that can not only match or create thousands of colours but also identify the best complementary colours.

"What sets RONA apart is our capacity to quickly respond to the changing needs of our customers and dealers. We are flexible enough to adapt our offer to each market."

— **Pierre Dandoy,** Executive Vice President, Store Operations

Privileged access for pros

For professional painters, who often have different needs and schedules, STUDIO by RONA offers efficiency and functionality. The new stores offer a distinct entrance and pick-up area, privileged access to paint and tinting services, a dedicated sales force and extended business hours.

STUDIO software: colour matching, colour schemes and custom colour creation.

CONSOLIDATION OF LOCAL MARKETS ENSURES FASTER RAMP-UP OF NEW STORES

RONA'S CURRENT PIPELINE of new stores and expansion projects reflects a more integrated approach to store construction and development, which emphasises consolidation of local markets wherever possible. Securing a significant volume of business in the market in question prior to official opening helps ensure the faster ramp-up and profitability of the new point of sale.

2010 openings

This approach will be applied in the openings slated for 2010, which include a RONA big-box in Aurora, Ontario; RONA proximity stores in Welland, Ontario, Saskatoon, Saskatchewan, and Sherwood Park, Alberta; and expansion of two regional stores into new big-box outlets in Saint-Luc and Saint-Eustache, Quebec.

Luxury Toronto showroom to focus on high-end bath fixtures

ANOTHER NOTEWORTHY NEW THRUST involves the scheduled opening during 2010 of a luxury retail showroom in downtown Toronto offering high-end plumbing fixtures and related products.

The upscale showroom is an initiative of RONA's Noble Trade business unit. It reflects RONA's reputation for innovative new store concepts as well as the Company's strategy of broadening its offering in specialty markets such as plumbing. Also in the works for 2010 is an additional plumbing-HVAC point of sale in the greater Toronto area to serve Noble Trade's core professional and commercial market.

New additions to Réno-Dépôt, RONA and TOTEM banners

NEW STORE CONSTRUCTION ACTIVITY in 2009 reflected further development of the Company's strong regional banners as well as the hallmark RONA network. Openings included a completely rebuilt Réno-Dépôt big-box store in LaSalle, Quebec, representing an investment of $20 million; a new 52,000-square-foot, $16-million TOTEM proximity store in Strathmore, Alberta; and a $12-million, 52,000-square-foot RONA proximity store in Saint-Georges de Beauce, Quebec.

The LaSalle store, which encompasses 130,000 square feet of retail space plus a 16,000-square-foot garden centre and stocks 32,000 different items, showcases the latest Réno-Dépôt big-box concept. The central axis of the store is lined with boutiques offering different finishing products: flooring, doors and windows, kitchen, bathroom, paints, interior decoration and even a storage boutique.

There is also a dedicated Project Space where customers can meet with experienced advisors to discuss their renovation projects. As well, more space is allotted for the contractor counter, where all contractor services have been grouped together for increased efficiency.

Smaller stores that are big on service

The new stores in Saint-Georges and Strathmore embody the latest generation of RONA's innovative proximity concept. This format was developed in response to market research showing that location is an increasingly important consideration for today's busy consumers, who also place a premium on customer service and expertise.

Proximity stores range in size from 35,000 to 60,000 square feet and offer 20,000-plus different items, including well-stocked departments for tools, hardware, plumbing, electrical goods, floor coverings and seasonal articles, as well as lumberyards. With their emphasis on personalized service and community involvement, they represent a return to the traditional specialist entrepreneur.

Saint-Georges and Strathmore both incorporate green building technology and were the first two RONA points of sale to apply for LEED accreditation — the Leadership in Energy and Environmental Design assessment system for new building construction.

Strong growth potential

RONA's proximity concept also appeals to real-estate developers and municipalities looking for more flexible models, particularly in mid-size cities. Market research indicates there is strong potential for implementation of additional proximity stores in communities across Canada.

ACQUISITIONS

"We have strong teams with exceptional expertise and know-how, which is key in terms of our ability to manage growth and successfully integrate and enhance the assets we've acquired."

— **Claude Guévin,** Executive Vice President and CFO

Stringent criteria

All potential targets must meet RONA's stringent acquisition criteria:

- be profitable;
- have an experienced management team;
- EPS accretive;
- synergies with RONA's existing operations;
- a compatible culture;
- and strong growth potential.

Targeted acquisitions key to growth

EXPANSION THROUGH TARGETED ACQUISITIONS remains a key vector as RONA puts renewed focus on growth, armed with a strong balance sheet and the financial flexibility that will enable it to capitalize on attractive opportunities.

Potential targets in Canada include small and medium-sized retail hardware chains; commercial and professional specialists in select product categories such as plumbing and HVAC, lumber and building materials, and retail buying groups.

Going forward, the Company intends to leverage its track record of successful integration to more quickly grow newly acquired assets.

Expansion continues in Atlantic Canada

During 2009, RONA continued to expand its presence in the Atlantic Provinces with the April acquisition of Bishop's Building Center in Bay Roberts, Newfoundland. The Bishop's location as well as another existing point of sale were consolidated into a new store in the area that operates under the RONA banner. With this latest acquisition, RONA and its affiliate dealer-owners now operate 26 stores in the Atlantic Provinces.

THE RONA APPROACH TO SUSTAINABLE DEVELOPMENT

HAVING CELEBRATED ITS 70TH ANNIVERSARY IN 2009, THE NOTION OF OPERATING WITH A VIEW TO ENSURING LONG-TERM VIABILITY — OR IN TODAY'S TERMINOLOGY, "SUSTAINABILITY" — IS A FAMILIAR ONE TO RONA.

As Canada's largest retailer and distributor of hardware, home renovation and gardening products, our Company is committed to being the industry leader in sustainable development.

This is not simply a matter of "doing the right thing". We believe that making sustainability an integral part of the way we do business will contribute to RONA's competitive edge in a resource-constrained, environmentally conscious world, creating added value for investors and other stakeholders.

To that end, we have adopted a "triple-bottom-line" approach that reflects RONA's ethics and values, and encompasses all three pillars of sustainability — economic development, social commitment and environmental stewardship.

Our sustainability agenda includes initiatives designed to address priorities in each of those three pillars. For detailed information on RONA's economic development and financial performance, readers should consult the Review of Operations and Financial Statements sections of the Annual Report.

In the following pages, you will find highlights of our 2009 initiatives related to social commitment and environmental stewardship, as well as information on RONA's sustainability agenda going forward.

Sustainable development priorities
Ensuring employee well-being and development
Involvement in the community
Reducing RONA's environmental footprint
Encouraging responsible procurement and consumption
Economic sustainability - generating a level of returns that facilitates reinvestment, growth and job creation

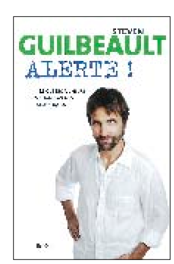
EARNING THE RESPECT OF STAKEHOLDERS

RONA's commitment to sustainable development continued to earn the Company accolades from stakeholders in 2009.

GREENPEACE

At the annual general meeting of shareholders in April, Mélissa Filion, Greenpeace Boreal Forest Campaigner, lauded RONA's wood-procurement policy — designed to help preserve Canada's Boreal forest – saying that "RONA is showing the way for other retailers and suppliers in the sector to follow."

In his recently published book, *Alerte – le Québec à l'heure des changements climatiques* (Alert – Quebec at the Time of Climate Change), author and environmentalist Steven Guilbeault cited RONA's rigorous life-cycle approach to the development of eco-friendly products, adding that "one hopes rival companies will quickly follow their example."



SOME CANDID THOUGHTS ON SUSTAINABILITY FROM THE PRESIDENT AND CEO

To help put RONA's commitment to sustainability in perspective, President and CEO Robert Dutton (RD) addressed some issues raised by stakeholders.

Robert Dutton

Q. Who is responsible for sustainable development at RONA?

RD - Of course, it's a team effort in the sense that every member of senior management has the responsibility to implement sustainability initiatives in his or her sector of activity. But the buck stops here — at the CEO's desk. I am ultimately responsible for sustainable development across the Company. It's a responsibility I take very seriously. In the New World that is unfolding, it's clear that a company's performance with regard to sustainability will be a crucial determinant of overall success. Stakeholders, including our shareholders, no longer look only at the financial aspect.

Q. Given that scenario, do you see any major roadblocks that might inhibit RONA — or other companies — from meeting their sustainability goals?

RD - Notwithstanding the need for decisive action on issues like climate change and waste management, compliance with the fast-growing body of environmental laws and regulations can be very costly and challenging. If as a society we wish to continue advancing our sustainability agenda, policy makers and governments must strive to ensure that regulations and compliance mechanisms are not only effective in terms of reducing emissions or conserving resources, but also sufficiently cost-effective to be achievable.

From a retailer's perspective, you also want to make sure consumers are on side.

Q. What distinguishes RONA from the competition in terms of sustainability considerations?

RD - First of all, from the customer perspective, we have gone to extraordinary lengths to avoid "greenwashing" and ensure that all ecologically responsible products or services RONA offers deliver real, proven benefits.

Secondly, as a Canadian company with 30,000 employees and a presence in hundreds of cities and towns across the country, RONA is particularly conscious of its impact on the well being of our people and communities.

Q. Are you satisfied with RONA's progress to date?

RD - I am very pleased with the major initiatives we have introduced since we committed two years ago to becoming the industry leader in sustainable development. But we are aware that we still have a considerable distance to go to achieve benchmark status in terms of our overall sustainability performance and reporting standards.

During 2010, we will be assembling the data required to develop a more comprehensive sustainability road map, with key performance indicators that will enable us to accurately report on our performance relative to an established baseline.

Sustainable development is an ongoing journey. As RONA travels the path forward, we welcome constructive dialogue and feedback that will help us continue to improve.

AMONG THE MOST TRUSTED BRANDS IN CANADA

Results of the annual Marketing/Leger Corporate Reputation Survey, published in *Marketing* magazine, confirmed RONA's status as one of the most trusted brands in Canada. RONA ranked 12th among 100 Canadian companies, moving up from 15th spot in 2008.

50 Corporate Knights • 2009 BEST CORPORATE CITIZENS

As well, RONA made it into the top 20 in the annual *Corporate Knights* Corporate Citizens ranking of Canadian companies. Included in the rankings for the first time, RONA placed 18th among 50 companies listed. It ranked highest in the home-improvement category.

RONA was also honoured as the 2009 recipient of:

Les Phénix Lauréat 2009	The *Prix Phénix*, Quebec's most prestigious environmental award, in recognition of the Company's sustainable development efforts, particularly its life-cycle-assessment approach.
Ontario Nature	The **Ontario Nature Corporate Award**, presented by the province's leading conservation organization for outstanding leadership in protecting the natural environment.
Canadian Boreal Initiative / Initiative Boréale Canadienne	The **Boreal Award** presented by the Ottawa-based Canadian Boreal Initiative for RONA's groundbreaking Wood Products Procurement Policy.
Energy Wise Excellence 2009 WINNER Retailer	The Hydro-Québec **Energy Wise Award of Excellence** in the retail category for the Company's energy-saving efforts.

SOCIAL COMMITMENT

AT THE HEART OF RONA'S SUSTAINABILITY AGENDA ARE ITS COMMITMENTS TO THE PERSONAL GROWTH AND WELL-BEING OF ITS CLOSE TO 30,000 EMPLOYEES AND THEIR FAMILIES, AND TO BEING A SOLID CORPORATE CITIZEN OF THE TOWNS AND CITIES ACROSS CANADA WHERE WE LIVE AND CONDUCT OUR BUSINESS.

THESE COMMITMENTS REFLECT OUR RONA VALUES: SERVICE, UNITY, RESPECT, THE SEARCH FOR THE COMMON GOOD AND A SENSE OF RESPONSIBILITY.

EMPLOYEE HEALTH AND SAFETY IS PARAMOUNT

RONA's Health and Safety Program is designed to protect employees, contract workers, customers and the general public. The goal is to provide a healthy, accident-free workplace. The Company also strives to create a culture of wellness that extends beyond the workplace through initiatives which, for instance, encourage people to stop smoking and to exercise regularly.

Managers and supervisors are expected to lead by example, establishing effective work procedures, providing proper equipment and training, and working in a safe manner. But safety is a shared responsibility. Strict adherence to the best safety practices and active participation by everyone, every day, in every job, is essential for the safety excellence RONA strives for.

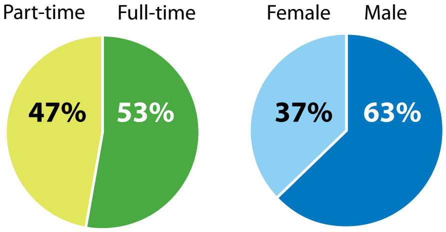
Noteworthy initiatives in 2009 included a H1N1 pandemic preparedness campaign to inform employees across Canada about the potential threat and encourage vaccination and preventive measures.

As well, the new Employee Assistance Program was implemented across the organization. This program enables employees to benefit from free, confidential counselling sessions to help them resolve problems of a personal or professional nature.

Focus on accident prevention

A focus on accident prevention and reduced absenteeism was reflected in the key performance indicators for 2009, including a 20% decrease in the frequency of on-the-job accidents — double the targeted 10% reduction. There were also decreases in the numbers of both short- and long-term disability claims. However, satisfaction with those achievements was tempered by an increase in the severity of accidents, an area where the Company will be stepping up its efforts.

RONA'S WORKFORCE AT A GLANCE*



*Excludes affiliates.

EXPERIENCE VALUED

RONA prides itself on its "people culture". The Company has a strong focus on youth — but not to the exclusion of other generations. In fact, 30% of RONA employees* are over 50 years of age. This reflects not only the aging of Canada's population but also the Company's pro-active targeting of 50-plus individuals knowledgeable about tools and renovation to work in its stores. Their experience and expertise significantly enhance the customer experience.

"RONA's people-oriented culture gives us a competitive edge in terms of attracting and retaining outstanding employees. They appreciate that we provide a fun place to work as well as opportunities to grow."

— Christian Proulx, Senior Vice President, People and Culture

EMPLOYEE RECOGNITION

RONA believes in giving credit where credit is due — to the many outstanding employees whose willingness to go the extra mile in terms of enhancing the customer experience play a crucial role in the Company's success.

AGP Customers First.

AGP (for acknowledge, guide, propose) is RONA's principal service-standards and recognition program.

It incorporates a variety of incentives and rewards designed to increase employee engagement and recognize the achievements of individual employees as well as entire store teams. The top reward is an all-expense paid trip for the top employee in each RONA corporate and franchise store, along with their spouse, to the Company's annual Spring Show, which was held in Montreal in 2009.

This past year, employee recognition also took on a whole new dimension for 87 exceptional men and women from across the RONA network. They were selected from some 300 applicants to serve as volunteers at the Vancouver 2010 Olympic Winter Games. This initiative was a provision of the Company's role as a national partner of the 2010 Winter Games. RONA is proud to have sent one of the largest corporate delegations of employee volunteers to the Games.

vancouver 2010 | RONA NATIONAL PARTNER

STEP WORKSHOPS REACH OUT TO A NEW GENERATION

During 2009, RONA pursued a number of initiatives aimed at addressing the needs of next-generation consumers and merchants. A highlight was the creation of the STEP (share, think, express, participate) workshops directed by President and CEO Robert Dutton, which reflect the importance RONA places on listening to its people.

Fifty-four participants under age 35, all employees of RONA or its affiliate dealers, gathered in August for intensive brainstorming and learning sessions. Two three-day sessions were held, one for Francophones and another for Anglophones. Prominent guest speakers, including economist and author David Foot and environmentalist Steven Guilbeault, addressed such issues as changing demographics and customer needs and sustainability.

INVESTING IN TRAINING AND PROFESSIONAL DEVELOPMENT

Despite a challenging business environment, RONA continued to make substantial investments in training and talent development during 2009, with a primary focus at the store level. In addition to helping employees enhance their skill sets, research clearly shows a correlation between training and increased sales.

A significant portion of in-store product-related training is conducted utilizing RONA's IC4 e-learning platform, which logged almost 250,000 30-minute sessions in 2009. Several special sustainability-related modules were introduced, addressing the Company's Wood Products Procurement Policy and steps to discourage the use of plastic bags in favour of reusable shopping bags.

RONA also conducts extensive classroom training for managers at the store level as well as other employees who require specialized knowledge. During 2009, some 3,800 people participated in 438 classroom sessions that provided more than 11,000 hours of training. Included were special two-day courses focused on the cessation of sales of synthetic pesticide, where employees received training that enabled them to propose alternative solutions to customers.

RONA U 'ALTITUDE' IN-HOUSE UNIVERSITY TRAINING

RONA partnered with Montreal's Concordia University to create its new Altitude training program for store and regional managers. Altitude provides 14 days of formal classes and lectures spread over 14 months, utilizing a curriculum specially tailored to RONA's aims and objectives. Subjects include finance; leadership training; operational excellence, including marketing, merchandising and supply chain elements; as well as sustainable development and ethics.

The first two cohorts, involving 90 student-managers, began their studies in September 2009.

ALTHOUGH WE CANNOT ALWAYS MEET ALL STAKEHOLDERS' EXPECTATIONS — PARTICULARLY IN THE SORT OF DIFFICULT BUSINESS ENVIRONMENT ENCOUNTERED IN 2009 — RONA STRIVES TO ENGAGE IN A MEANINGFUL WAY WITH THE COMMUNITIES WHERE IT HAS A PRESENCE AND CONTRIBUTE TO THEIR ECONOMIC SUSTAINABILITY AND QUALITY OF LIFE.

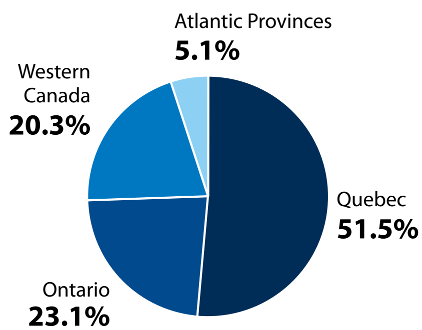
THE RONA FOUNDATION: HELPING DISADVANTAGED YOUNG PEOPLE

Created in 1998, the RONA Foundation provides financial support to organizations that help disadvantaged and at-risk young people achieve their potential and take their rightful places in the workforce and society. Since its inception, the Foundation has given more than $2.5 million to registered charitable organizations in all parts of Canada.

In 2009, more than $487,000 was distributed to some 80 organizations spanning the country. Beneficiaries included **Choices for Youth** in St. John's, Newfoundland, which provides affordable housing along with training in basic math and literacy skills; **AMRAC** (*Atelier de meubles et de Recyclage Ahuntsic-Cartierville*), which teaches youthful Montrealers in difficult circumstances how to manufacture, repair and restore traditional solid-pine furniture; the Toronto-based **Children's Aid Foundation**'s Post-Secondary Scholarship Fund, which enables young people from underprivileged backgrounds to complete their education; and the Calgary **YWCA Skills Training** program, which provides participants — mostly women aged 16-30 — with hands-on training in carpentry and related skills, to name just a few examples.

More information on the RONA Foundation can be found online at **rona.ca**

WHERE THE RONA FOUNDATION HELPS OUT



INDIVIDUAL STORES AND EMPLOYEES TAKE PRIDE IN PITCHING IN

Quite apart from RONA's corporate philanthropy, the close to 700 stores operating under the various RONA banners make significant contributions of their own to the prosperity and well being of their communities. Community involvement has long been a strength of the independent dealer affiliates that comprise a large segment of the RONA network. Moreover, employees in corporate and affiliate stores alike take pride in pitching in to support community projects or lend a hand to the less fortunate.

Collectively, the stores donate several million dollars in money and merchandise each year. A recent internal survey designed to measure the scope of their community involvement identified some of the favorite causes. Support for local sports teams topped the list, closely followed by charitable organizations; health and dignity; local cultural events and community celebrations; ecology and the environment; youth; and education.

AMRAC

GROWING WITH OUR ATHLETES

From 2006 through 2010, the RONA Growing With Our Athletes Program has provided $4 million in financial support to 100 high-performance winter and summer athletes from across Canada, including current and future Olympians. The program assists them with their living, training and competition expenses.

From Équiterre, founding member of the Centre for Sustainable Development, Steven Guilbeault (left), and Sidney Ribaux (right) with Robert Dutton.

CORPORATE GIVING

RONA inc's donations to national, regional and community organizations in support of healthcare, education, the arts and national heritage amounted to $675,000 in 2009.

Topping the list was a pledge to contribute $750,000 over five years towards the construction in Montreal of the **Centre for Sustainable Development** (*Maison du développement durable*). The centre will house a number of environmental and social development non-government organizations and serve as a showcase for state-of-the-art, ecologically advanced building design.

In addition to its donations, the Company also provides funding in the form of sponsorship agreements that help support numerous worthwhile endeavors, including research to fight illnesses such as Alzheimer's disease, cystic fibrosis and multiple sclerosis (MS). For example, the annual **RONA MS Bike Tour** raised $9.6 million at a series of events across the country during 2009 to fund the search for a cure and provide vital services for people living with multiple sclerosis. Between participating employees and their families and the Company's contribution as national sponsor, RONA pledged more than $405,000 to the MS cause last year.

RONA is also an official national partner of the Canadian **Red Cross**. RONA and its stores channeled more than $282,000 to the organization's coffers during 2009.

Partnering to provide relief in Haiti
In January 2010, when a massive earthquake devastated Haiti, the Red Cross — and RONA — were quick to respond, appealing to the generosity of Canadians and RONA employees. Over a four-week period from mid-January to mid-February, donations accepted in the RONA network across the country over $246,000.

COMMUNITY-BASED 2010 WINTER GAMES PARTNERSHIP PRODUCES AN ENDURING LEGACY

RONA's role as a National Partner of the Vancouver 2010 Olympic and Paralympic Winter Games extended well beyond the spectacle of the games themselves, to broadly based sustainability initiatives designed to leave an enduring legacy in the community.

In the two years leading up to the Games, the RONA Vancouver 2010 Fabrication Shop program provided valuable carpentry training and work experience to some 60 individuals who had faced barriers to employment through lack of education or skills. By the time the games opened, the "Fab Shop" had graduated 64 trainees from four different cohorts referred by inner-city community organizations: recent immigrants, unemployed young women, underserved urban youth and urban Aboriginal adults. The BC Construction Association is helping graduates obtain on-going employment.

Aside from equipping the trainees with vital "tools for life", the Fab Shop made a tangible contribution to the Games, providing more than 11,000 wooden items such as podiums, ski racks, wheelchair ramps and warming huts.

RONA also donated the building materials for a number of Olympic venues, including the Vancouver Olympic Centre — and for the construction of affordable housing in six BC communities.

ENVIRONMENTAL STEWARDSHIP

STRIVING FOR A LIGHTER ENVIRONMENTAL FOOTPRINT: RONA TAKING ACTION ON A NUMBER OF FRONTS

As it strives to position itself as the Canadian industry leader in sustainable development, RONA is moving ahead on a number of fronts: working to reduce greenhouse gas (GHG) emissions; erecting new stores that meet recognized standards for sustainable buildings; and implementing waste-management initiatives aimed at recovering and recycling material that otherwise would end up in landfills.

CARBON DISCLOSURE PROJECT

Since 2008, RONA has been participating in the **Carbon Disclosure Project (CDP)**, an independent non-profit organization that acts as an intermediary between investors and businesses with regard to climate-change issues. CDP plays a crucial role in encouraging companies worldwide to measure, manage and reduce their GHG emissions.

Collecting the detailed information requested by CDP serves to enlarge RONA's own database, helping the Company put its carbon footprint into sharper focus. The work scheduled to be completed in 2010 will enable RONA to establish a baseline that will allow the development of key performance indicators and structured action plans to further reduce its footprint.

RONA'S APPROACH TO ENVIRONMENTAL STEWARDSHIP ENCOMPASSES BOTH ITS OWN BUSINESS ACTIVITIES AS WELL AS A BROAD RANGE OF INITIATIVES DESIGNED TO ENCOURAGE ITS CUSTOMERS TO ADOPT RESPONSIBLE CONSUMPTION.

ROUTE OPTIMIZATION CURBS TRUCK TRAVEL — AND GHG EMISSIONS

Transportation of the large quantities of merchandise required to keep RONA's nation-wide network of stores well-stocked accounts for a significant portion of the Company's GHG emissions.

An in-depth review and analysis of highway transportation and delivery routes enabled RONA to make changes that dramatically reduced the number of kilometres (km) travelled by its trucks in 2009. The total distance travelled was cut by more than 1.5 million km or 15% from 2008 levels, for similar cargo volumes. The route optimization resulted in 600,000 fewer litres of diesel fuel being consumed, which translates into the equivalent of 1,600 fewer metric tonnes of CO_2 being released into the atmosphere.

PRO-ACTIVE APPROACH TO WASTE MANAGEMENT

What happens to products at the end of their useful life is a crucial consideration in terms of product stewardship. RONA takes a pro-active approach to waste management, designed to divert waste material generated by its operations from landfills.

The recycling of cardboard and plastic waste from big-box stores and distribution centres generated a net profit of $628,085 in 2009, taking into account sales of the recovered material and savings in landfill fees, compared to $745,000 in 2008.

In 2009, a pilot project involving big-box stores in the Montreal area began recycling other types of waste material as well, including wood (mostly discarded pallets), gypsum, steel, concrete, and damaged products along with earth from garden centres. During 2010, the Company will be looking at extending this program to other regions.

Cardboard and plastics recovery

	2009	2008*
Cardboard	**4,064 tons**	4,234 tons
Plastic	**405 tons**	180 tons

*Figures restated to reflect complete data.

"Sustainable development has become one of RONA's true strengths — we are earning renown as the market leader in this crucial area."

— **Michèle Roy,** Vice President, Communications and Public Affairs

MY RONA HOME REALITY TV SHOW PROMOTES CONSTRUCTION OF ECO HOMES

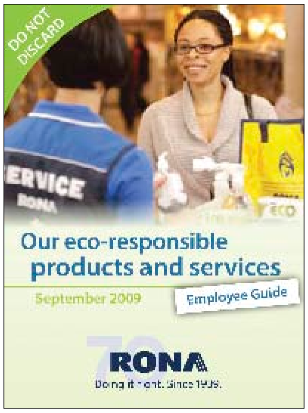
The *My RONA Home* reality TV show, which promotes the construction of ecological homes, proved do be a big hit during its debut 2009 season on the Citytv network. *My RONA Home* followed the activities of two Calgary families as they competed to design, build and decorate the best new green home.

Houses built on the show were among the first in the country to obtain LEED® Canada for Homes certification, thanks in large part to the utilization of numerous RONA ECO and eco-responsible products as well as locally sourced and FSC-certified wood in their construction.

The new show builds on the success of the French-language *Ma Maison RONA*, which completed its seventh season on the TVA network in Quebec in 2009; for the 2010 season, the houses constructed on *Ma Maison RONA* also will be built to LEED specifications.

ENCOURAGING CONSUMERS TO DO THE RIGHT THING

With millions of Canadians passing through its doors each month, RONA is ideally positioned to encourage responsible consumption and increased environmental awareness among consumers.



To that end, the Company has developed strategies designed to entice customers into choosing ecologically friendly alternatives, ranging from programmable thermostats to Energy Star light fixtures and ceiling fans and dual-flush toilets, to cite just a few examples. RONA actively promotes these sustainable alternatives through its flyers and other advertising media — frequently with partners to offer rebates and incentives.

The Company also operates a number of recovery programs that enable consumers to safely dispose of waste and was the first in Canada to recover and recycle used paint.

2009 advertising campaign

RONA recovery programs for consumers — 2009 achievements		
Product	**Quantity recovered**	**Program launch**
Paint*	3,093,664 kg	Quebec - 1997 Ontario - 2008
Batteries	16,497 kg	2008
Compact fluorescent light bulbs	67,121 bulbs	2008
Power tool accessories	5,378 accessories	2008

*In Ontario and Quebec. In both provinces, RONA was the first retailer to recover paint.

NEW STORES DESIGNED AND BUILT TO STRINGENT LEED CERTIFICATION STANDARDS

During 2009, RONA opened its first three stores designed and built to meet the stringent criteria of the recognized Leadership in Energy and Environmental Design (LEED) assessment system.

The Company anticipates receiving LEED certification later in 2010 for three new stores — a RONA proximity store in Saint-Georges, Quebec, a TOTEM proximity store in Strathmore, Alberta, and a STUDIO by RONA store in Saint-Léonard, Quebec.

The LEED evaluation criteria include measures to protect air quality, such as the use of low-emissions building materials (paint, adhesives and waterproofing products); as well as measures for reducing energy consumption, including energy-efficient roofing systems, extra insulation in the building envelopes, energy-efficient lights and timers to regulate lighting and HVAC systems throughout the day.

Wood from certified forests as well as locally produced materials were used in the construction of each store. Bike racks, changing rooms and showers were installed at the two proximity stores to encourage employees to cycle or walk to work.

RONA is committed to building to LEED specifications all new corporate stores on sites owned by the Company. In cases where the site or the building itself are to be leased, new stores will still incorporate many of the same features — designed to deliver reduced operating costs as well as significant sustainability benefits.

2009 advertising campaign

BENCHMARK RONA ECO AND ECO-RESPONSIBLE PRODUCTS SUBJECTED TO STRINGENT LIFE-CYCLE ANALYSIS

SYNTHETIC PESTICIDES NO LONGER SOLD

RONA stores across Canada stopped selling synthetic pesticides for cosmetic use as of July 1, 2009. As it prepared to take the synthetic products off store shelves, RONA took a pro-active approach that included extensive education and training to ensure that store employees would be able recommend effective alternative products and horticultural techniques to customers.

The area where RONA can best exercise leadership and have the greatest impact on environmental stewardship is the products sold in its 700 stores across Canada.

During 2009, RONA continued to expand its benchmark RONA ECO product line, in collaboration with the International Chair in Life Cycle Assessment at Montreal's École Polytechnique. A Canadian first, the brand guarantees RONA customers that the products bearing this label will have a lesser environmental impact than traditional products, taking into account the entire product life cycle.

There are five stages in the life cycle of any given product: resource extraction; manufacture; packaging and transportation; product use; and final disposal. Every RONA ECO product is subjected to rigorous, holistic life-cycle analysis that assesses its environmental impact at each stage, based on four critical indicators: climate change, ecosystem quality, human health and natural resources. Only products that deliver superior overall performance based on those four criteria merit the RONA ECO label.

From a modest start with eight cleaning products, the RONA ECO line has been steadily expanded. By the end of 2009, it encompassed 370 different items ranging from cleaners to gardening products to tools and building materials. Among the latest additions are RONA ECO paints made from 90% recycled paint.

RONA also offers more than 1,300 other "eco-responsible" products under various brands, which also have been evaluated by the experts of the Life Cycle Chair. To qualify as eco-responsible, these products must deliver a better environmental performance in one or more stages of their life cycles, whereas RONA ECO products must be judged superior over all.

As well, RONA ECO products can bear a recognized "ecolabel" — for example, *Energy Star, Water Sense, Green Seal and Environmental Choice* — certifying that they measure up to the relevant standards. The majority of eco-responsible products also bear recognized ecolabels.

Number of products				
	2008	Objective 2009	**Achieved 2009**	Objective 2011
RONA ECO products	8	280	**370**	450*
Eco-responsible products	500	1200	**1373**	2000

*The objective has been restated higher, given that initial objective for 2011 had practically been reached already; as well, the revised number reflects the reinterpretation of power tool accessories skus.

REUSABLE SHOPPING BAGS A RESPONSIBLE ALTERNATIVE

In June 2009, RONA stores introduced a policy designed to reduce the use of plastic bags and encourage customers to switch to more environmentally friendly, reusable shopping bags. While making available a second, larger size of reusable bag, the range of plastic bags was reduced from six sizes to one. As well, consumers are now charged five cents for each plastic bag they require, with the proceeds earmarked to support in part the construction of the Centre for Sustainable Development (*Maison du développement durable*) in Montreal.

Preliminary results indicate that the new policy, backed by a point-of-purchase information campaign, has resonated with consumers. Demand for plastic bags has decreased dramatically.

WOOD PRODUCTS PROCUREMENT POLICY 'MOST RIGOROUS IN NORTH AMERICA'

RONA is committed to sourcing its products from suppliers that share its dedication to sustainable development. That commitment is reflected in RONA's pioneering Wood Products Procurement Policy, developed after extensive consultations with stakeholders. Numerous environmental groups have commended the policy for its rigour and effectiveness in protecting the Canadian Boreal forest. Introduced in late 2008, it represents the first phase of a comprehensive Forest Products Procurement Policy designed to protect a precious renewable resource by offering products sourced from sustainably managed forests.

The policy sets out clear specific objectives (*see adjacent table*). At year-end 2009, 94% of the softwood lumber offered for sale in RONA's corporate and franchise stores was from forests certified under the three programs recognized by RONA: the Forest Products Marking Program (CSA), the Sustainable Forestry Initiative (SFI) and the Forest Stewardship Council (FSC). RONA's goal is that by the end of 2010, 100% of the softwood lumber – spruce, pine and fir for structural framing– sold in those stores will be from certified forests. The Company has also established a program to increase the proportion of certified lumber for sale by its affiliate dealers to 90% by the end of 2011.

Five stores in Ontario and Quebec exclusively offer softwood lumber from forests certified to the FSC standard, which RONA considers best responds to its requirements with regard to relations with local communities and biodiversity. In 2009, the Company succeeded in raising the overall proportion of FSC lumber sold in its corporate and franchise network from 2% to 9%, although there is currently limited availability of FSC-certified wood. The goal is to reach 25% by the end of 2012.

OBJECTIVES – Corporate / Franchise		RESULTS– Corporate / Franchise	
FSC certified lumber in 2009	4%	Beginning 2009	2%
in 2012	25%	End 2009	9%
Certified plywood in 2009	100%	Beginning 2009	95%
		End 2009	100%
Certified lumber in 2010	100%	Beginning 2009	90%
		End 2009	94%

OBJECTIVES – Affiliates	
Lumber and plywood from certified forests in 2011	90%

GLOBAL PROCUREMENT POLICY REVIEW

RONA is conducting a review of its global procurement policy in 2010 to reflect current best practices with regard to human rights and environmental stewardship.

Phase 2 will cover paper products
Going forward, RONA is planning to introduce Phase 2 of its Forest Products Procurement Policy, which will govern the purchase and use of paper products and cardboard and will be based on the wood-products model.

Additional information regarding RONA's Wood Products Procurement Policy as well as its Rules for Responsible Purchasing may be found online at **rona.ca**.

MANAGEMENT'S DISCUSSION AND ANALYSIS 2009

Year ended December 27, 2009

RONA INC. ("RONA," "WE" OR THE "COMPANY") IS CANADA'S LEADING RETAILER AND DISTRIBUTOR OF HOME IMPROVEMENT, HARDWARE AND GARDENING PRODUCTS. THE COMPANY OPERATES OR SERVES A NETWORK OF NEARLY 700 CORPORATE, FRANCHISE AND AFFILIATE STORES, AS WELL AS NINE HARDWARE AND BUILDING MATERIALS DISTRIBUTION CENTRES.

RONA's sales include:

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

FINANCIAL STATEMENTS

RONA's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are expressed in Canadian dollars. The Company has filed its audited consolidated financial statements for the year ended December 27, 2009, with the Canadian Securities Administrators. These statements can be viewed online at **www.sedar.com** or on RONA's website at **www.rona.ca**. This Management's Discussion and Analysis (MD&A) should be read in conjunction with the Company's financial statements and related notes.

NON-GAAP PERFORMANCE MEASURES

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

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

NEW ACCOUNTING STANDARD

Readers of this MD&A will note the application of a new accounting standard in first quarter 2009, which restates the results presented in 2008 and 2007.

At the beginning of 2009 the Company, in accordance with transitional provisions, retroactively adopted Section 3064 of the Canadian Institute of Chartered Accountants' (CICA) Handbook, "Goodwill and intangible assets," which replaces Section 3062 of the same title. The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including software developed internally. Pre-opening expenses for stores and distribution centres (previously included in other assets), advertising costs, including those related to store openings and costs incurred for Olympic and Paralympic sponsorship (previously included in prepaid expenses), no longer meet the capitalization critera of the new section. The balances in these asset accounts as at December 31, 2007 – that is, at the beginning of first quarter 2008 – were restated and included in retained earnings and the results of operations of 2008 were also restated. In addition, certain amounts previously included in fixed assets were reclassified to intangible assets as a result of this change in accounting policy.

In brief, operating income for 2008 has been reduced by $12.4 million, amortization and depreciation by $7.1 million, and net earnings by $3.7 million, or a reduction of $0.03 per share, diluted.

Prepaid expenses have also been reduced by $21.9 million, other assets by $11.3 million, and opening retained earnings by $20.5 million. The detailed impact of these new recommendations on the consolidated financial statements in their first year of application is explained on page 46 of this report and in Note 2 of the Consolidated Financial Statements.

FISCAL YEAR

RONA's fiscal year ends on the last Sunday of each year and usually has 52 weeks. For interim disclosure purposes, quarters end on the last Sunday of March, June, September and December respectively, and have 13 weeks. Fiscal 2007 ended on December 30, fiscal 2008 ended on December 28, and fiscal 2009 ended on December 27.

HIGHLIGHTS OF THE LAST THREE YEARS

Since the beginning of 2007, market conditions in the renovation – construction industry have varied from one region of the country to another. A gradual slowdown in activity was first noted in Quebec and Ontario when the Canadian dollar rose strongly against the American dollar, affecting the manufacturing sector in both of these provinces. The stronger Canadian dollar also had a positive impact on foreign travel, generating a shift in consumer discretionary spending. These two factors affected sales in the RONA network in the eastern part of the country, while sales in the West continue to post solid growth. Same-store sales decreased by 1.6% in 2007, excluding the effects of the extra week in 2006. Consolidated sales in 2007 totalled $4,785.1 million, 5.1% more than the $4,551.9 million posted in 2006. Expressed on a weekly basis so as to eliminate the difference in length of these two years, consolidated sales rose 7.1%. This growth stemmed largely from acquisitions and store openings. Excluding contributions from major acquisitions – mainly Noble Trade, Curtis Lumber, and Mountain Building Centres – weekly consolidated sales rose by 2.9%. This organic growth came from sales generated by new stores opened in 2007 and affiliate stores acquired by RONA.

At year end 2007 and the beginning of 2008, the level of activity in the western part of the country began to decline due to major inflation in the region, especially in Alberta, where a large inventory of unsold homes had accumulated. In Quebec the situation stabilized, while in Ontario economic deterioration continued and accelerated in the third quarter as the financial crisis deepened. The automotive industry was severely affected in this region. In the Atlantic Provinces, Saskatchewan and Manitoba, 2008 was a good year, but these provinces represent only a small percentage of economic activity in Canada. Given all these factors, RONA's same-store sales declined by 4.6%. In general, the performance of stores in Alberta, British Columbia and Ontario was affected, while the stores in Quebec, the Prairies and Atlantic Provinces performed better than in the previous year.

In early 2009, several factors kept Canadian consumer confidence at an historic low. The unemployment rate in February reached 7.7%, its highest level since 2003, and the economic decline was more severe than anticipated. This particular economic environment was unfavourable to renovation – construction activities, as demonstrated by a significant drop in housing starts, especially in the West. A number of measures were taken, however, by various levels of government to mitigate the effects of this recession, including the introduction of a home renovation tax credit, to which RONA promptly offered a complementary incentive in order to stimulate renovation activities in the country. According to the Bank of Canada, the recession in Canada was relatively short, as economic growth resumed in the third quarter of 2009 and appears to have accelerated in the fourth quarter. This recovery, combined with the many initiatives launched by RONA to stimulate renovation activity, had positive repercussions for the Company, which saw same-store sales increase in every quarter and ended fourth quarter 2009 with positive same-store sales.

Despite the general slowdown in certain regions of the country and the effects of the recession on consumer confidence, RONA, with its unique business model, has continued to consolidate its market over the last three years, while market share has risen from 16.4% in early 2007 to 17.5% by the end of 2009. This growth was achieved through the Company's four growth vectors: customer growth or same-store sales growth, development of the affiliated dealer network, new store construction and acquisitions.

RONA: KEY FIGURES FOR 2009, 2008 AND 2007

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

	Year ended		
	December 27 2009	December 28 2008 (Restated)	December 30 2007 (Restated)
Sales	**$ 4,677.4**	$ 4,891.1	$ 4,785.1
Net earnings	**138.3**	156.5	178.6
Net earnings per share	**1.12**	1.35	1.55
Diluted earnings per share	**1.11**	1.34	1.53
Net earnings (excluding unusual items)	**147.8**	167.5	178.6
Earnings per share (excluding unusual items)	**1.20**	1.45	1.55
Diluted earnings per share (excluding unusual items)	**1.19**	1.44	1.53
Total assets	**2,749.9**	2,478.9	2,459.1
Long-term debt	**440.5**	494.2	636.8
Number of shares outstanding at year end	**129,653,383**	115,819,699	115,412,766

Note: The key figures for 2008 and 2007 have been restated to reflect the application of Section 3064, "Goodwill and intangible assets" of the Canadian Institute of Chartered Accountants' (CICA) Handbook.

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

FINANCIAL HIGHLIGHTS

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

	2009	2008
Results of operations		
Sales	**$ 4,677,359**	$ 4,891,122
Percentage increase	**(4.4)%**	2.2%
Operating income (EBITDA)	**332,994**	364,729
Operating income (excluding unusual items)	**346,803**	376,951
Net earnings	**138,252**	156,451
Earnings per share**	**1.12**	1.35
Diluted earnings per share**	**1.11**	1.34
Net earnings (excluding unusual items)	**147,829**	167,494
Earnings per share (excluding unusual items)**	**1.20**	1.45
Diluted earnings per share (excluding unusual items)**	**1.19**	1.44
Common shares		
Outstanding**	**129,653,383**	115,819,699
Cash flows from operating activities	**282,774**	347,487
Financial structure		
Total assets	**2,749,883**	2,478,918
Shareholders' equity	**1,779,039**	1,468,225
Long-term debt	**440,520**	494,171

* Fiscal 2006 had 53 weeks.
** Figures per share reflect a two-for-one split in March 2005.

For 2009, RONA posted net earnings of $138.3 million, or $1.11 per share (diluted), compared to $156.5 million or $1.34 per share (diluted) in 2008. Excluding unusual items during the reporting period, net earnings were $147.8 million or $1.19 per share (diluted) in 2009, compared to $167.5 million or $1.44 per share (diluted) in 2008. This is a decrease of $19.7 million or 11.7%. The numerous efficiency improvements introduced under the PEP program in the first phase of the 2008–2011 strategic plan have helped offset the negative impact of this continued downward pressure on sales in the renovation – construction industry caused by low consumer confidence and the results of recently opened stores that have not yet reached their full potential. Since the beginning of the year, the PEP program has, for example, allowed us to improve our gross margin, reduce inventory levels, optimize our network of existing stores and reduce our transportation and logistics costs.

In 2008, RONA posted net earnings of $156.5 million, including unusual items, compared to $178.6 million for the year ended December 30, 2007, a decline of 12.4%. Earnings per share were $1.35 ($1.34 diluted) compared to $1.55 ($1.53 diluted) in 2007. Excluding unusual items, net earnings were $167.5 million or $1.45 per share ($1.44 diluted). The numerous measures that RONA implemented in 2007 and more formally established early in 2008 to improve efficiency, stimulate sales and increase customer loyalty have helped offset the downward pressure of the difficult economic situation on the Company's results.

The Company's net earnings in 2007 were down 4.5% from $187.1 million posted in 2006. Net earnings per share likewise declined 4.9% compared to earnings per share of $1.63 ($1.61 diluted) posted in 2006. There was also an extra week in 2006, which had the effect of underestimating the results for sales, operating income and net earnings in 2007 on a strict comparison with 2006. When we eliminate the effect of this extra week by calculating a weekly average, we see that net earnings for 2007 declined only slightly.

UPDATE ON THE COMPANY'S STRATEGIC ORIENTATION

RONA's 2008–2011 strategic plan was presented to the financial community during Investors Day on February 27, 2008 in Montreal. A news release outlining the issues and objectives of the plan was also published that day. RONA management made a commitment to provide quarterly updates of the plan's progress in its management report and an annual update in its annual report and at its annual general meeting. The information below presents the Company's main achievements in 2009.

Achievements in 2009

The following section highlights the annual achievements related to the implementation of various initiatives under Phase 1 of the plan – that is, the PEP program (productivity, efficiency, profitability) – grouped into four main projects.

1. Sales and customer loyalty increase across the RONA network:

- There was a major increase in applications for the RONAdvantage program, which provides rebates in the form of gift certificates to a maximum of $1,000 as a complementary incentive under the new home renovation tax credit programs. Over 18,000 applications representing renovation projects worth more than $140 million were received across the RONA network.
- The success of RONAdvantage has also had a major positive effect on the number of new RONA VISA Desjardins credit cards issued since the beginning of the year (over 30% growth), the volume of financing (over 60% growth), installation services (over 15% growth) and the use of RONA Project Guides to help carry out these renovation projects.
- Penetration by RONA private brand and controlled-label products increased from 17% at the beginning of 2009 to over 19% at year end.

2007	2006*	2005	2004	2003	2002	2001	2000
$ 4,785,106	$ 4,551,936	$ 4,026,424	$ 3,625,866	$ 2,666,167	$ 2,293,304	$ 1,800,389	$ 1,288,693
5.1%	13.1%	11.0%	36.0%	16.3%	27.4%	39.7%	34.2%
383,821	372,352	326,142	269,466	172,447	127,384	85,059	53,379
383,821	372,352	326,142	269,466	172,447	127,384	85,059	53,379
178,645	187,146	172,660	134,425	77,500	45,857	24,208	15,695
1.55	1.63	1.51	1.18	0.73	0.60	0.37	0.26
1.53	1.61	1.49	1.16	0.72	0.57	0.35	0.25
178,645	187,146	172,660	134,425	77,500	45,857	24,208	15,695
1.55	1.63	1.51	1.18	0.73	0.60	0.37	0.26
1.53	1.61	1.49	1.16	0.72	0.57	0.35	0.25
115,412,766	114,935,569	114,412,744	113,957,270	113,614,130	95,243,888	73,747,304	57,683,560
268,327	275,639	155,739	98,367	111,519	81,857	62,569	26,342
2,459,138	2,090,777	1,654,874	1,327,050	1,258,144	763,256	736,334	444,063
1,306,272	1,121,876	927,132	746,193	607,581	383,447	206,822	128,085
636,776	484,821	242,089	148,591	266,922	120,140	305,868	116,287

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

The financial highlights from 2000 to 2008 have been restated to reflect the application of Section 3064, "Goodwill and intangible assets" of the Canadian Institute of Chartered Accountants' (CICA) Handbook.

- The new top-quality controlled-label HAUSSMANN and HAUSSMANN XPERT tools were launched and are now available in all RONA network stores, including Réno-Dépôt stores in Quebec. HAUSSMANN and HAUSSMANN XPERT tools and accessories are exclusive to RONA and offer the latest features in professional tool technology.
- Some 40 new RONA ECO products were introduced. Selected in partnership with the International Chair in Life Cycle Assessment, these new products include recovered and recycled RONA ECO paint.
- Four new product categories (indoor furniture, workwear, automobile products and small appliances) and four new controlled labels (FACTO, UBERHAUS, UBERHAUS DESIGN and UBERHAUS PRO) were launched at the RONA 2010 Spring Show.
- Commercial and professional sales at big-box stores in Ontario increased over 15%, thanks to close cooperation with our Commercial and Professional Market Division's specialized sales team.
- Same-store sales grew for Noble Trade Plumbing Supplies, despite a declining market.
- A 188,000-square-foot expansion was undertaken at the Commercial and Professional Market Division distribution centre in Ontario, which specializes in plumbing, heating and ventilation supplies, in order to increase the variety of products available.
- Two new 52,000-square-foot proximity stores were opened: one under the TOTEM Building Supplies banner in Strathmore, Alberta, and one under the RONA banner in Saint-Georges, Quebec. These concepts, which are improved with each new opening, are very promising growth vehicles for the years ahead. They provide excellent balance between the large product selection in big-box stores and the expertise available in smaller stores. These are the first two RONA stores to seek certification by the LEED (Leadership in Energy and Environmental Design) environmental evaluation system for new buildings.
- The Réno-Dépôt renovation program was finalized. This includes major renovations in several stores and a major reconstruction and expansion of the store in LaSalle, Quebec. The new store now measures 130,000 square feet.
- *STUDIO by RONA,* a new store concept, was launched, with three new stores opened in the Montreal area late in the year.
- An exclusive partnership agreement was signed with Maple Leaf Sports & Entertainment Ltd. that delivers permanent, on-camera RONA branding at the Air Canada Centre (including on-ice RONA logos) and Ricoh Coliseum.
- *My RONA Home,* a new 10-episode English-language reality TV show, was launched in October.
- A new multi-platform advertising campaign was launched for RONA's 70th anniversary, including major discounts on selected items, thousands of AIR MILES® rewards, draws for trips to the 2010 Winter Olympic Games in Vancouver and a variety of other prizes.

2. Improvement in the profitability of our corporate store network:

- Consolidated gross margin increased by 8 basis points. Given better terms and conditions from our suppliers and the resulting supportive effect on the growth of the network, the adjusted gross margin increased by 34 basis points. This increase stems from a major reduction in store losses ("shrink"), an increase in the penetration rate of private brand and controlled-label products, further improvements in terms and conditions from our suppliers and optimized management of product categories.
- Our turnaround plan for underperforming stores has produced very good results, as these stores have posted relatively higher increases in sales and operating income than the network as a whole this year.
- Improved opening process for new stores, including increased marketing and merchandising activities in the pre-opening period and better coordination and integration of the Company's development activities.

3. Optimization of the supply chain:

- A $50 million or 6.6% reduction in same-store and distribution centre inventories (excluding acquisitions and new stores) compared to 2008 resulted in lower operating costs and financial charges. Inventories were reduced by $37 million, including new stores and acquisitions.
- Reduced transportation costs and ongoing improvements in demand management resulted in a reduction of over $8 million in logistics costs in 2009.
- Gains in efficiency were made at our distribution centres and stock rotation was better, despite declining sales.

4. Development of the affiliated dealer network:

- In 2009, 14 dealer-owners were recruited, representing estimated annual retail sales of over $30 million.
- RONA dealer-owners have been very busy this year, completing 96 expansion and renovation projects totalling nearly $50 million in investments.
- Jean-Luc Meunier was appointed senior vice president, affiliate dealer-owner network development. At RONA, Meunier's team is in charge of recruitment and development of the affiliate dealer-owner network and dealer support.
- An innovative succession planning program was introduced at the end of the year. This program is designed to facilitate store acquisitions by family members of independent dealer-owners, by RONA employees or by aspiring entrepreneurs from outside the Company.
- In February 2010, the Company launched a dynamic nationwide campaign targeting hardware, lumber and building materials dealers with a view to acquiring their businesses or helping them develop their own succession plans based on RONA's new program.

Phase 2: New World program

On January 25, 2010, RONA unveiled Phase 2 of its 2008-2011 strategic plan, the New World program, at a presentation to members of the financial community taking part in RONA's 2010 Investors Day in Toronto. This program places renewed emphasis on growth now that there are signs of an economic recovery.

The New World program reflects rapidly changing behaviours

The New World program is designed to guide RONA in its transition to a post-recession period, which will see the introduction, among retailers and customers alike, of new practices that reflect a new generation of dealer-owners and new categories of consumers. The program will initially cover two main aspects: delivering a great customer experience, and managing new talent and succession plans. Two major initiatives announced in late 2009 – the launch of the innovative STUDIO by RONA banner and the introduction of a unique succession planning program, designed to encourage next-generation entrepreneurs to become store owners – offer a preview of what the New World program has in store.

Studies clearly show that consumers want superior quality products and a better quality/price ratio. RONA intends to take advantage of these demands through a renewed private brand strategy featuring new controlled labels. The Company has raised its penetration objectives for private brands and controlled labels from 20% to 24% by the end of 2011. At year end 2009, the penetration rate was 19%. RONA has also launched new product categories that are highly attractive for next-generation consumers, and we intend to introduce a new, integrated customer loyalty program that combines the features of our complementary home renovation tax credit incentive program with other existing loyalty programs so as to give our customers even better reasons to choose RONA for their renovation needs.

Recent research by RONA has led us to the striking conclusion that consumers in all market segments from now on will be sensitive about the way their activities and the products they buy will impact the environment. This emerging attitude coincides with the priorities that underlie RONA's bid for leadership in sustainable development, as exemplified by our strict forest products procurement policy, designed to help protect the Canadian boreal forest, and the development of eco-responsible product lines based on the Life Cycle Approach. Building on these successes and moving forward with RONA's sustainable development program will be a major priority in 2010–2011.

In this second phase of the strategic plan, the Company's growth will be achieved through the four vectors that have engineered our success in the past: on one hand, network development through the construction of new stores, the development of the affiliate network, and acquisitions, and on the other hand, "customer growth," the term we now use to mean organic growth or increases in same-store sales. The goal is to increase RONA's market share in the industry in Canada, from the current 17.5% to about 20%.

The main financial objectives of the New World program are:

- Increase the EBITDA margin by 20 to 30 basis points per year.
- Increase earnings per share by an average of 10% to15% over the period.
- Increase the return on capital by 75 to 100 basis points over the period.
- Maintain a top-quality credit rating.

Achievement of these objectives is based on the following assumptions:

- Same-store sales will increase by 2% to 2.5% on average over the period.
- The penetration rate for private brand and controlled-label products will increase from 19% to 24%.
- Retail sales in the affiliate network will grow by $100 million to $150 million per year.
- Sales of about $80 million per year will be generated by new store construction and relocation or expansion of existing stores.
- There will be further strategic acquisitions.

In 2010 and 2011, RONA will focus its efforts mainly on strengthening our position in Ontario and Western Canada through targeted renovation, expansion, relocation and consolidation projects, while continuing to develop our markets in Quebec and the Atlantic Provinces. Growing our professional and commercial market remains another priority.

RONA is also well positioned to seek appropriate acquisitions. Among our potential targets are Canadian retailers and professional and commercial specialists, as well as distributors or buying groups. All of these prospects will be subject to stringent criteria. The Company has also recently launched a dynamic nationwide campaign targeting hardware, lumber and building materials dealers with a view to acquiring their businesses or helping them develop their own succession plans based on RONA's unique program.

ANALYSIS OF CONSOLIDATED RESULTS

Economic conditions

According to the Bank of Canada *Monetary Policy Report* for January, the outlook for growth worldwide for 2010 and 2011 is somewhat stronger than the Bank had projected in its October report. Recovery continues to depend on exceptional monetary and fiscal stimulus, as well as extraordinary measures taken to support financial systems.

According to the Bank of Canada, economic growth in Canada resumed in the third quarter of 2009 and was expected to have gathered momentum in the fourth quarter. The Bank projects that the economy will grow by 2.9% in 2010 and 3.5% in 2011, after a 2.5% contraction in 2009. The factors shaping the recovery are largely unchanged: policy support, increased confidence and improving financial conditions.

In this context of economic recovery, positive signs have been noted over the last month, particularly in terms of housing resales, average home prices and housing starts.

More specifically, according to statistics published by the Canadian Real Estate Association, 431,823 existing homes were sold in 2009. The number of transactions was up 7.7% over 2008, thanks to a higher level of activity in the second half of the year. In fact the number of transactions was up 72.1% in December alone. Selling prices for houses likewise averaged 5.0% higher in 2009 compared to 2008. Like housing resales, prices underwent a pronounced increase in the second half of the year, as evidenced by the 19.3% increase registered in December. It should be noted that at the beginning of the year, the Canadian Real Estate Association was predicting a fall in both of these indicators in 2009.

In terms of housing starts, a major turnaround occurred late in the year. December housing starts rose from 11,981 in 2008 to 13,438 in 2009, an increase of 12.2%. For the same period, the single-family home segment registered an increase of 43.5%. Finally, over the whole year, there was a 30.4% decline compared to 2008, given the low level of starts throughout the year, particularly in the first half. For the single-family home segment, there was a decline of 18.7%. This downturn affected the performance of building materials specialists throughout the year, particularly in Western Canada.

Thanks to strong gains in recent months in the industry's leading statistics, the business environment is becoming increasingly positive for real estate activity in general. The very low level of mortgage rates should also continue to stimulate renovation and construction activities in the coming quarters.

We must keep in mind, however, that fundamental trends remain very favourable for home renovations in Canada, as more than 65% of existing homes that are over 25 years old require maintenance and repair work. As well, baby boomers represent roughly 30% of the population, and they are investing major sums in their homes and cottages. And there is still plenty of interest in interior decorating and gardening activities.

Last but not least, more and more next-generation Canadians want one-stop solutions for their renovation projects and excellent service in a friendly store near their home. In light of these trends and a brand-new study on customer segmentation in the renovation – construction industry, RONA is working to develop new store formats and concepts, selecting our products and developing innovative services to get into position to capitalize quickly on the recovery.

Consolidated sales

Consolidated sales for 2009 totalled $4,677.4 million, $213.8 million or 4.4% less than the $4,891.1 million posted in 2008. This decline stems from the reduction in same-store sales in the corporate and franchise segment and a slight decrease in distribution sales.

The 4.8% decline in same-store sales is due mainly to a drop in housing starts this year, putting downward pressure on sales by building materials specialists and on home renovation spending, since new home buyers generally undertake major improvements in the months and years following their purchase of a new property. The decline can also be attributed to low confidence among Canadian consumers – still lagging behind last year, despite some recent improvement. A number of initiatives were undertaken this year to boost renovation and construction spending, including the RONAdvantage program, the industry's only ongoing complementary incentive program for the government home renovation tax credits. It should be noted that same-store sales improved in each quarter this year, reflecting the moderate economic recovery in Canada and the success of our various sales stimulation programs. RONA ended the year with positive same-store sales, up 0.7% for the fourth quarter.

Gross margin

In 2009, the Company's gross margin edged up from 27.28% in 2008 to 27.36% in 2009, an increase of 8 basis points. Given better terms and conditions from our suppliers and the resulting supportive effect on the growth of our network, the adjusted gross margin rose by 34 basis points, from 29.93% in 2008 to 30.27% in 2009. This increase stems from a significant reduction in store losses ("shrink"), an increase in RONA private brand and controlled-label penetration, further improvements in terms and conditions from our suppliers, and optimized management of product categories.

Store closures (unusual items)

As part of our extensive efficiency improvement and optimization program for the network of existing RONA stores, the Company decided in second quarter 2008 to close four underperforming stores and transfer the business volume from these stores to other nearby RONA corporate and affiliate stores. Two of these are big-box stores: one in Richmond, British Columbia, the other in Scarborough, Ontario. The two others are smaller stores under the Cashway banner in Ontario.

Total operating income for 2009 was affected by unusual items amounting to $13.8 million, mainly from the re-evaluation of commitments related to the above-mentioned closures. After taxes, unusual items for 2009 totalled $9.6 million. In 2008, unusual costs of $12.2 million were posted. After taxes, unusual items for 2008 totalled $11.0 million.

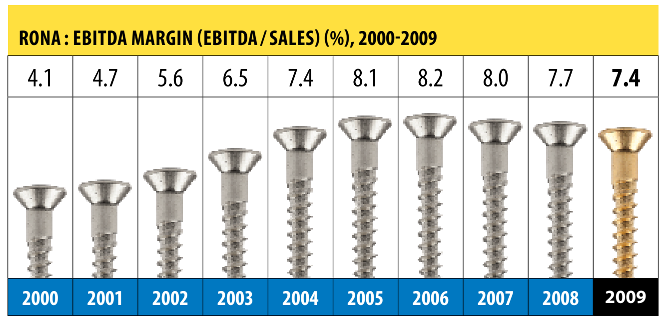
This decision allowed the Company to eliminate operating losses and transfer business volume to other corporate and affiliate stores in better locations with higher growth potential and much stronger performance.

Consolidated operating income

Operating income, including the unusual items mentioned above, amounted to $333.0 million in 2009, down $31.7 million or 8.7% from the $364.7 million posted in 2008. The EBITDA margin went from 7.46% in 2008 to 7.12% in 2009, a decrease of 34 basis points, due largely to the pressure of lower same-store sales on costs that are hard to contain.

Excluding unusual items, operating income was $346.8 million in 2009, down $30.1 million or 8.0% from 2008. The EBITDA margin declined from 7.71% in 2008 to 7.41% in 2009, a decrease of 30 basis points, despite a 4.8% reduction in same-store sales and a greater proportion of distribution activities, which generate lower margins than retail activities.

The numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008–2011 strategic plan have helped offset the negative impact of weaker sales in the renovation – construction industry caused by low levels of consumer confidence and the results of recently opened stores that have not yet reached their full potential. This year, the PEP program helped improve the gross margin, reduce inventory levels, optimize the network of existing stores and reduce transportation and logistics costs.



Note: The EBITDA margins for 2008 and 2009 exclude unusual items.

Interest, depreciation and amortization

RONA's interest expenses on long-term debt and bank loans in 2009 were reduced by $6.7 million or 22.2%, from $30.2 million in 2008 to $23.5 million in 2009. This decrease stems from highly disciplined management of the balance sheet and capital investments, combined with the proceeds from the June 2009 share issue, which helped reduce the Company's debt levels significantly this year.

Depreciation and amortization for 2009 totalled $103.2 million, compared to $101.0 million in 2008, an increase of $2.2 million or 2.2% from 2008. This increase can be attributed to the opening of new corporate stores, the renovation program for existing corporate stores, and ongoing improvements to our information systems.

Net earnings

Net earnings, including unusual items, decreased by $18.2 million or 11.6% to $138.3 million or $1.11 per share (diluted) in 2009, compared to $156.5 million or $1.34 per share (diluted) in 2008. The factors that influenced operating income also apply to this change in net earnings.

Excluding the unusual items mentioned above, net earnings amounted to $147.8 million or $1.19 per share (diluted) in 2009, compared to $167.5 million or $1.44 per share (diluted) in 2008, a decrease of $19.7 million or 11.7%.

ANALYSIS OF SEGMENT RESULTS

RONA has two distinct business sectors: distribution and corporate and franchise stores.

RONA: KEY SEGMENT FIGURES FOR THE YEAR ENDED DECEMBER 27, 2009

(In thousands of dollars)

	2009	2008	$ change from 2008	% change from 2008
Segment sales				
Corporate and franchise stores	**$ 3,540,227**	$ 3,741,748	$ (201,521)	(5.4) %
Distribution	**2,318,172**	2,357,209	(39,037)	(1.7)
Total	**5,858,399**	6,098,957	(240,558)	(3.9)
Intersegment sales and royalties				
Corporate and franchise stores	**-**	-	-	-
Distribution	**(1,181,040)**	(1,207,835)	26,795	(2.2)
Total	**(1,181,040)**	(1,207,835)	26,795	(2.2)
Sales				
Corporate and franchise stores	**3,540,227**	3,741,748	(201,521)	(5.4)
Distribution	**1,137,132**	1,149,374	(12,242)	(1.1)
Total	**4,677,359**	4,891,122	(213,763)	(4.4)
Operating income				
Corporate and franchise stores	**252,840**	286,177	(33,337)	(11.6)
Distribution	**80,154**	78,552	1,602	2.0
Total	**332,994**	364,729	(31,735)	(8.7)
Operating income (excluding unusual items)				
Corporate and franchise stores	**266,649**	298,399	(31,750)	(10.6)
Distribution	**80,154**	78,552	1,602	2.0
Total	**346,803**	376,951	(30,148)	(8.0)
EBITDA margin				
Corporate and franchise stores	**7.14 %**	7.65 %	-	-51 b.p.
Distribution	**7.05 %**	6.83 %	-	+22 b.p.
Total	**7.12 %**	7.46 %	-	-34 b.p.
EBITDA margin (excluding unusual items)				
Corporate and franchise stores	**7.53 %**	7.97 %	-	-44 b.p.
Distribution	**7.05 %**	6.83 %	-	+22 b.p.
Total	**7.41 %**	7.71 %	-	-30 b.p.

Corporate and franchise stores

In 2009, sales from the corporate and franchise store segment were $3,540.2 million, down $201.5 million or 5.4% from 2008. As mentioned in the discussion of our consolidated results, this decline stems from a drop in same-store sales due to a decrease in housing starts this year and low consumer confidence in Canada.

Most of the same-store sales decline is due to lower sales of forest products, building materials and seasonal items. Flooring, paint, plumbing, lighting fixtures, kitchen and installation services posted very good sales performance this year, reflecting caution on the part of consumers in choosing smaller renovation projects, but also the success of our different promotions and increases associated with our complementary RONAdvantage home renovation tax credit incentive program. Sales of RONA private brand and controlled-label products also posted superior performance over same-store sales in general, increasing the penetration rate of these products to more than 19%, compared to 17% at year end 2008. New products and brands were unveiled near the end of the year and will become available in our stores in 2010.

RONA's customer loyalty and sales stimulation activities, combined with employee efforts to deliver the best service and shopping experience in our industry even during a recessionary period, have limited the decreases in numbers of in-store transactions. The success of our RONAdvantage program and its impact on sales of installation and other related services helped the Company achieve a bigger average shopping basket in our big-box stores in 2009. The average shopping basket in our proximity and specialized stores declined this year, however, due to lower sales of forest products and building materials.

In 2009, RONA continued to roll out our proximity store concept by opening two new 52,000-square-foot stores, one under the TOTEM Building Supplies banner in Strathmore, Alberta, and the other under the RONA banner in Saint-Georges, Quebec. In terms of big boxes, RONA has updated the Réno-Dépôt banner, with major renovations in several stores and the rebuilding and expansion of the store in LaSalle, Quebec. This new store now measures 130,000 square feet. Near the end of the year, RONA also launched a new banner, STUDIO by RONA, opening three new stores in the Montreal region in Quebec.

Finally, commercial and professional sales in Ontario big-box stores were up by over 15% as the result of close cooperation with the specialized sales team in our Commercial and Professional Market Division. The Noble Trade specialized plumbing stores also experienced growth, despite declining activity in the industry.

Operating income for retail activities, including unusual items related to the cost of the store closures mentioned in the discussion of our consolidated results, was $252.8 million in 2009, compared to $286.2 million in 2008. The EBITDA margin for retail activity declined by 51 basis points, from 7.65% in 2008 to 7.14% in 2009.

Excluding unusual items, operating income was $266.6 million in 2009, down $31.8 million or 10.6% from 2008. The EBITDA margin slid from 7.97% in 2008 to 7.53% in 2009, a reduction of 44 basis points, stemming largely from the 4.8% decline in same-store sales. The numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008–2011 strategic plan helped significantly to offset the negative effects related to downward pressure on sales. In the retail sector, the PEP program also helped improve our gross margin, optimize our existing store network and improve the process for opening new stores.

Distribution

Net of intersegment activities, distribution sales declined by 1.1% to $1,137.1 million in 2009, compared to $1,149.4 million in 2008. The source of this decline is a slight decrease in same-store sales among our affiliates, particularly those with a high proportion of building materials sales, which could not be compensated for by the recruitment of new dealer-owners. Just as in our corporate stores, affiliate dealer-owner sales were affected by the drop in housing starts this year.

Distribution activities generated operating income of $80.2 million in 2009, compared to $78.6 million in 2008, an increase of $1.6 million or 2.0%. The EBITDA margin increased by 22 basis points. These increases stem from efficiency gains in our distribution centres, a reduction in transportation costs and the optimization of transportation volumes and distribution channels.

CASH FLOWS AND FINANCIAL POSITION

Operations generated $260.0 million in 2009, compared to $264.1 million in 2008. Net of changes in working capital, operations generated $282.8 million, down from $347.5 million in 2008.

Throughout the entire year, the Company exercised disciplined financial management and strictly monitored investments in fixed assets. In 2009, RONA invested $161.9 million in capital spending and intangible assets, $34.2 million less than the $196.1 million invested in 2008. These investments were devoted to the expansion of our retail network, including the construction of new stores as well as maintenance, renovations and upgrades of existing stores to reflect our new concepts. We also allotted part of these investments to ongoing improvements in our IT systems, in order to increase our operational efficiency. Non-core assets were also sold off in 2009, generating an additional cash inflow of $8.7 million.

RONA issued 11,630,000 shares on June 2 at a price of $12.90 per share, generating gross proceeds of $150 million. Subsequent to the exercise of the overallotment option on June 30, after the end of the second quarter, 1,744,500 additional shares were issued at a price of $12.90 per share, bringing the aggregate gross proceeds generated by the share offering to $172.5 million, with 13,374,500 shares issued.

Proceeds of the share issue, major cash flow generated by our operations, and disciplined management of working capital throughout the year allowed RONA to finance various investment projects and still reduce bank loans and rotating credit by $58.2 million. As at December 27, 2009, the Company's net debt was reduced by $283.8 million compared to the same date in 2008. As at December 27, 2009, RONA had $239.3 million in cash, which will be used over forthcoming quarters to develop various growth projects in Phase 2 of the Company's 2008–2011 strategic plan. RONA also has an undrawn committed credit facility of up to $650 million.

The table below presents a synopsis of the Company's contractual obligations as at December 27, 2009, including off-balance-sheet operating lease agreements used in the normal course of business. The Company has also concluded other off-balance-sheet arrangements (such as inventory buyback agreements and guaranteed mortgage loans), which do not appear in the table below. The Company has guaranteed mortgages amounting to $1.3 million. The terms of these loans extend until 2012 and the net carrying amount of the assets held as security, which mainly include land and buildings, is $5.7 million. Pursuant to the terms of inventory repurchase agreements, the Company is committed towards financial institutions to buy back the inventory of certain customers at an average of 61% of the cost of the inventories to a maximum of $71.8 million. In the event of recourse, this inventory would be sold in the normal course of the Company's operations. These agreements have undetermined periods but may be cancelled by the Company on 30 days' notice. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low. Finally, letters of credit for imports totalling over $33 million were outstanding at the end of the year for the purchase of various, mainly seasonal, products.

RONA's balance sheet remains strong. On December 27, 2009, the ratio of total net debt to capital was 10.4%, compared to 25.0% at the end of 2008. The equity/asset ratio was 64.7% at year end 2009, compared to 59.2% at the same date in 2008.

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

QUARTERLY PERFORMANCE

RONA's results fluctuate significantly from one quarter to another due to the highly seasonal nature of renovation –construction activities. The strongest periods of the year are in spring and fall, and over 80% of the Company's net annual earnings are generated in the second and third quarters. Sales in the first quarter are always lower than in the other three, due to low activity levels in the renovation – construction sector during the winter. Finally, weather conditions can have a major impact on sales. With the increase in the proportion of our activities related to the corporate store and franchise segment, the seasonal effect of the first quarter has been more pronounced in 2007, 2008 and 2009 than in previous years. The second quarter is always the year's strongest, followed by the third.

RONA: CONTRACTUAL OBLIGATIONS BY TERM
(as at December 27, 2009)

		Payments by term (In thousands of dollars)			
Contractual obligations	Total	Less than 1 year	1-2 years	3-4 years	5 years or more
Long-term loans	$ 433,771	$ 4,953	$ 15,724	$ 8,431	$ 404,663
Obligations under capital leases	7,295	3,818	2,820	455	202
Operating and other leases	1,136,673	123,334	225,439	191,595	596,305
Other long-term obligations	17,167	11,367	5,800	-	-
Total	**$ 1,594,906**	**$ 143,472**	**$ 249,783**	**$ 200,481**	**$ 1,001,170**

RONA: OUTSTANDING SHARES
(as at February 11, 2010)

Common shares	129,654,305
Unexercised options	1,906,969
Total	**131,561,274**

RONA: CONSOLIDATED QUARTERLY FINANCIAL RESULTS
(In millions of dollars, except earnings per share)

	2009				2008 (restated)				2007 (restated)
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Sales	**$ 1,140.9**	$ 1,320.5	$ 1,369.9	$ 846.0	$ 1,124.6	$ 1,381.7	$ 1,473.3	$ 911.5	$ 1,087.0
Operating income	**78.8**	105.8	122.9	25.5	75.3	112.5	150.3	26.6	71.4
Operating income (excluding unusual items)	**78.4**	111.8	131.1	25.5	76.2	121.0	153.1	26.6	71.4
Net earnings (net loss)	**30.9**	49.1	60.8	(2.5)	29.8	52.5	76.6	(2.4)	28.5
Net earnings (net loss) (excluding unusual items)	**30.6**	53.3	66.5	(2.5)	30.4	58.9	80.6	(2.4)	28.5
Earnings (loss) per share ($)	**0.24**	0.38	0.51	(0.02)	0.26	0.45	0.66	(0.02)	0.25
Earnings (loss) per share ($) (excluding unusual items)	**0.24**	0.41	0.56	(0.02)	0.26	0.51	0.70	(0.02)	0.25
Diluted earnings (loss) per share ($)	**0.24**	0.38	0.51	(0.02)	0.25	0.45	0.66	(0.02)	0.24
Diluted earnings (loss) per share ($) (excluding unusual items)	**0.23**	0.41	0.55	(0.02)	0.26	0.50	0.69	(0.02)	0.24

Note: The results for 2008 and 2007 have been restated to reflect the application of Section 3064, "Goodwill and intangible assets" of the Canadian Institute of Chartered Accountants' (CICA) Handbook.

ANNUAL CHANGE IN SAME-STORE SALES
Last nine quarters

Q4-2007	Q1-2008	Q2-2008	Q3-2008	Q4-2008	Q1-2009	Q2-2009	Q3-2009	Q4-2009
- 2.5%	- 7.0%	- 4.9%	- 3.5%	- 1.4%	- 8.5%	- 6.2%	- 5.3%	+ 0.7%

Note: Same-store sales for 2007 and 2008 have been restated to reflect sales without adjustment for holidays and materials deflation.

Quarterly performance in 2008

First quarter

Consolidated sales in first quarter 2008 rose to $911.5 million, $33.0 million or 3.8% more than the $878.5 million posted in 2007. This growth was largely the result of acquisitions and store openings, as well as the recruitment of new affiliates. Excluding contributions from acquisitions (Noble Trade, Dick's Lumber, Centre de Rénovation André Lessard and Best-MAR), consolidated sales declined by 3.5%. Sales generated by new stores were unable to compensate for the drop in same-store sales, which fell 5.2% in first quarter 2008, excluding 0.5% deflation in the average price of forest products and the estimated 1.3% negative impact of statutory holidays. A new holiday ("Family Day") was introduced in Ontario and the Easter weekend occurred in the first quarter of 2008, rather than the second as in 2007.

The net loss in first quarter 2008 was $2.4 million, or $0.02 per share, compared to net earnings of $8.0 million or $0.07 per share in 2007. This decrease can be explained by pressure on sales in the renovation – construction industry resulting from low consumer confidence and the effects of poor weather conditions. The decline was also related to new stores that had not yet reached their full potential. A rapid adjustment in the Company's cost structure at the beginning of the year failed to offset these factors, since this is the time of the year when traffic in stores is at its lowest and variable costs are harder to contain. The first quarter historically represents only about 15% of annual sales and 5% of annual earnings.

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

Second quarter

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

Net earnings in second quarter 2008, including unusual items, declined by 13.1% to $76.6 million or $0.66 per share (diluted), compared to $88.2 million or $0.76 per share (diluted) in 2007. Excluding the unusual items related to the cost of store closures and a gain on disposition of assets, net earnings were $80.6 million or $0.69 per share (diluted) in second quarter 2008, compared to $88.2 million or $0.76 per share (diluted) in 2007, down $7.5 million or 8.6%. This decrease was largely the result of downward pressure on sales in the renovation – construction industry due to low consumer confidence. The decline was also attributable to an unfavourable fluctuation in exchange rates, rising transportation costs and results from new stores that had not yet reached their full potential. The numerous efficiency improvements posted under the PEP program in Phase 1 of the 2008–2011 strategic plan helped offset the impact of these negative factors, however. In the second quarter, for example, the PEP program allowed the Company to improve our gross margin, reduce inventory levels and optimize the network of existing stores and distribution centres.

Third quarter

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

Net earnings for third quarter 2008, including unusual items, decreased by $1.4 million or 2.6% to $52.5 million or $0.45 per share (diluted), compared to $53.9 million or $0.46 per share (diluted) in 2007. Excluding unusual items, net earnings were $58.9 million in third quarter 2008, or $0.50 per share (diluted), compared to $53.9 million or $0.46 per share (diluted) in 2007, an increase of $5.0 million or 9.3%, reflecting the major efforts made throughout the quarter to stimulate sales and improve operational efficiency in order to compensate for the negative effects of the downward pressure on sales in the renovation – construction industry.

Fourth quarter

Consolidated sales in fourth quarter 2008 totalled $1,124.6 million, up $37.6 million or 3.5% from the $1,087.0 million posted in 2007. This growth stemmed from store openings, the recruitment of new affiliates, acquisitions and an increase in distribution sales. Excluding contributions from acquisitions (Dick's Lumber, Centre de Rénovation André Lessard and Best-MAR), consolidated sales increased by 1.5%. The strong performance by our affiliate network and the rapid integration of newly recruited dealer-owners, generated a $34.2 million or 15.3% increase in distribution sales, which, combined with sales generated by new stores, more than compensated for the drop in same-store sales. The increase in distribution segment sales stemmed from temporary inventory accumulation of certain construction materials at low prices at year end and overall higher sales of construction materials by the affiliate store network, given an improved purchasing program introduced for our construction supply specialists.

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

Net earnings in the fourth quarter of 2008, including unusual items, increased by $1.2 million or 4.4% to $29.8 million or $0.25 per share (diluted), compared to $28.5 million or $0.24 per share (diluted) in 2007. Excluding unusual items, net earnings totalled $30.4 million or $0.26 per share (diluted) in fourth quarter 2008, compared to $28.5 million or $0.24 per share (diluted) in 2007, an increase of $1.8 million or 6.4%.

Quarterly performance in 2009

First quarter

Consolidated sales in first quarter 2009 were $846.0 million, down $65.5 million or 7.2% lower than the $911.5 million posted in 2008. This decrease is largely the result of an 8.5% drop in same-store sales, due to low consumer confidence in the economy, the significant drop in housing starts in Western Canada, and a seasonal effect amplified by a period of intense cold at the beginning of the year, which affected sales of construction materials and forest products everywhere in the country. Weather conditions were especially poor in Western Canada in March, with record precipitation levels in Alberta. Sales in the distribution sector were up slightly in this quarter, reflecting the recruitment of new affiliates over the last year. These new dealer-owners posted a comparatively strong retail performance, with a decline of only 3.2% in same-store sales over this quarter.

For first quarter 2009, RONA posted a net loss of $2.5 million or $0.02 per share, compared to a net loss of $2.4 million or $0.02 per share in first quarter 2008. This is a decrease of $0.1 million, reflecting the downward pressure in renovation – construction sales and a seasonal effect amplified by poor weather, as mentioned above. These factors were almost entirely offset by the improved efficiency measures under the PEP program and by lower interest rates.

Second quarter

Consolidated sales for second quarter 2009 were $1,369.9 million, down $103.3 million or 7.0% from the $1,473.3 million posted in 2008. This drop is largely the result of a 6.2% decline in same-store sales, due mainly to the sharp fall in housing starts, especially in Western Canada, which greatly affected sales in our specialized building materials stores. Same-store sales were also squeezed by a 0.75% negative effect because second quarter 2009 was one business day shorter than 2008, due to incidence of holidays. In the second quarter, weather conditions were again unfavourable for renovation – construction activities and sales of seasonal items and air-conditioning products.

Net earnings, including unusual items, declined by 20.7% to $60.8 million, or $0.51 per share (diluted), compared to $76.6 million or $0.66 per share (diluted) in 2008. Excluding unusual items posted this quarter, net earnings were $66.5 million in second quarter 2009, or $0.55 per share (diluted), compared to $80.6 million or $0.69 per share (diluted) in 2008, for a decrease of $14.2 million or 17.6%. This decline stems largely from weaker same-store sales and increased promotional activities. These factors were partly offset by a significant reduction in interest costs this quarter.

Third quarter

Consolidated sales for third quarter 2009 were $1,320.5 million, down $61.2 million or 4.4% from the $1,381.7 million posted in 2008. This decline is largely the result of a 5.3% drop in same-store sales in the corporate and franchise sector, while sales in the distribution sector were down 1.6%.

Lower same-store sales were due largely to the decline in housing starts in recent quarters, putting downward pressure both on sales in our specialized building materials stores and on consumer spending for home renovations (since home buyers generally undertake major improvements in the months and years immediately following their purchase of a new property). The same-store sales decline may also be attributable to low consumer confidence among Canadians, which is still lagging behind last year, despite a recent improvement. Finally, weather conditions once again made this quarter particularly unfavourable for the sale of seasonal products at the beginning of the quarter. Over 80% of the decrease in same-store sales stems from a reduction in forest products, building materials and seasonal items.

Net earnings, including unusual items, for third quarter 2009 declined by $3.4 million or 6.4% to $49.1 million, or $0.38 per share (diluted), compared to $52.5 million or $0.45 per share (diluted) in 2008. Excluding the unusual items mentioned above, net earnings were $53.3 million in third quarter 2009, or $0.41 per share (diluted), compared to $58.9 million or $0.50 per share (diluted) in 2008 – a decrease of $5.6 million or 9.6%. The numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008-2011 strategic plan helped offset the negative impact of weaker sales in the renovation – construction industry stemming from low levels of consumer confidence and the results of recently opened stores that have not yet reached their full potential. In the third quarter, for instance, the PEP program helped reduce inventories, optimize our existing store network and reduce transportation and logistics costs.

Fourth quarter

Consolidated sales in fourth quarter 2009 were $1,140.9 million, an increase of $16.3 million or 1.5% higher than the $1,124.6 million posted in 2008. This growth can be attributed to a 0.7% increase in same-store sales, new store openings during the year and improved distribution sales. The growth in same-store sales reflects the economic recovery underway in Canada and improved conditions in the renovation – construction market. This increase also stems from the success of our renovation stimulus programs, especially RONAdvantage, the industry's only ongoing complementary incentive program for the government's home renovation tax credits.

Higher sales, combined with the Company's efficiency and productivity improvements under the PEP program helped grow net earnings by 3.6% in fourth quarter 2009. Net earnings, including unusual items, increased by $1.1 million to $30.9 million or $0.24 per share (diluted), compared to $29.8 million or $0.25 per share (diluted) in 2008. This growth reflects our higher sales figures.

Excluding unusual items, operating income was $78.4 million in fourth quarter 2009, an increase of $2.3 million or 3.0 % over fourth quarter 2008. The EBITDA margin, excluding unusual items, climbed by 10 basis points.

Excluding unusual items, net earnings edged up to $30.6 million or $0.23 per share (diluted) in fourth quarter 2009, compared to $30.4 million or $0.26 per share (diluted) in 2008, an increase of $0.2 million or 0.7%.

OUTLOOK

With the beginnings of a moderate economic recovery underway, and in view of the significant achievements of the PEP program (productivity, efficiency, profitability), RONA intends to move quickly so as to take advantage of various business opportunities in its sector. The Company has a solid balance sheet with extensive financial flexibility, which will be a clear asset in the implementation of Phase 2 of the 2008–2011 strategic plan, the New World program.

Under the New World program, RONA will seek growth through the four following vectors: on one hand, development of the network through the three vectors represented by store construction, development of the affiliate network, and strategic acquisitions, and on the other hand, the customer growth vector – the term RONA now uses to designate organic growth or same-store growth. The objective is to increase RONA's market share in the industry in Canada from the current 17.5% to 20%.

Customer growth will be stimulated by numerous initiatives to improve the customer experience – innovative store concepts, new product categories, new private brand and controlled-label products, new tools to improve customer loyalty, and new training programs for store employees. The Company's new succession planning program will also help RONA attract next-generation dealer-owners and continue to be the company that offers independent dealer-owners in Canada the best development support.

We should add here the quarterly breakdown for spending on advertising in 2010 will be quite different from 2009. Close to $5 million of additional advertising will be spent in the first quarter relating to the major "Made in Canada" campaign for the 2010 Vancouver Olympics. This amount will however be compensated by equivalent reductions in the next quarters of 2010. RONA expects this campaign to have a significant impact on the company's awareness from coast to coast.

In short, management can confirm that RONA has taken the necessary steps over the last two years to prepare for the economic recovery. We are ready for the challenge of the New World that lies ahead – ready, most of all, to begin a phase of renewed growth.

RISKS AND UNCERTAINTIES

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

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

Market and competition

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

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

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

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

The economy

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

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

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

Human resources

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

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

Information technology

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

Reputation

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

Supply chain

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

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

Acquisition / Recruitment / Integration / Development

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

Legal and regulatory requirements

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

Accounting standards

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

Availability of financing

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

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

CHANGES IN ACCOUNTING POLICIES

Goodwill and intangible assets

At the beginning of 2009 the Company, in accordance with transitional provisions, retroactively adopted Section 3064 of the Canadian Institute of Chartered Accountants' (CICA) Handbook, "Goodwill and intangible assets," which replaces Section 3062 of the same title. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including internally generated intangible assets. Pre-opening expenses for stores and distribution centres (previously included in other assets), advertising costs, including those related to store openings, and costs incurred for Olympic and Paralympic sponsorship (previously included in prepaid expenses), no longer meet the capitalization criteria of the new section. The balances in these asset accounts as at December 31, 2007 – that is, at the beginning of first quarter 2008 – were restated and included in retained earnings and the results of operations in 2008 were also restated. In addition, certain amounts previously included in fixed assets were reclassified to Intangible assets as a result of this change in accounting policy.

The impact of the recommendations of the new section on the consolidated financial statements is as follows:

	Fourth Quarter 2008			Year-to-date December 28, 2008		
	Previously reported	Adjustments	Restated	Previously reported	Adjustments	Restated
Consolidated Earnings						
Earnings before the following items	$ 70,914	$ 4,378	$ 75,292	$ 377,101	$ (12,372)	$ 364,729
Depreciation and amortization	26,192	(1,514)	24,678	108,091	(7,133)	100,958
Income taxes	11,838	1,818	13,656	73,541	(1,613)	71,928
Non-controlling interest	903	18	921	5,030	122	5,152
Net earnings and comprehensive income	25,697	4,056	29,753	160,199	(3,748)	156,451
Net earnings per share – basic	0.22	0.04	0.26	1.39	(0.04)	1.35
Net earnings per share – diluted	0.22	0.03	0.25	1.37	(0.03)	1.34
Consolidated Cash Flows						
Net earnings	$ 25,697	$ 4,056	$ 29,753	$ 160,199	$ (3,748)	$ 156,451
Depreciation and amortization	26,192	(1,514)	24,678	108,091	(7,133)	100,958
Future income taxes	(1,696)	(171)	(1,867)	(1,733)	(1,184)	(2,917)
Non-controlling interest	903	18	921	5,030	122	5,152
Changes in working capital items	36,896	(8,720)	28,176	75,336	9,128	84,464
Fixed assets	(66,463)	15,714	(50,749)	(196,145)	34,276	(161,869)
Intangible assets	–	(15,714)	(15,714)	–	(34,276)	(34,276)
Other assets	(7,085)	6,331	(754)	(13,380)	2,815	(10,565)
Consolidated Balance Sheets						
Assets						
Income taxes receivable				$ 6,046	$ 429	$ 6,475
Prepaid expenses				33,104	(21,902)	11,202
Future income taxes – current				13,800	5,474	19,274
Fixed assets				875,634	(53,259)	822,375
Intangible assets				3,797	53,259	57,056
Other assets				38,466	(11,256)	27,210
Liabilities						
Future income taxes – current				4,854	(393)	4,461
Future income taxes – long-term				23,998	(2,694)	21,304
Non-controlling interest				29,098	122	29,220
Retained earnings – beginning of year				892,967	(20,542)	872,425

Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee of the CICA issued EIC–173, "Credit risk and the fair value of financial assets and financial liabilities," which provides guidance on how to measure financial assets and liabilities, taking into account the company's own credit risk and the counterparty credit risk in determining the fair value of financial assets and financial liabilities, including financial derivatives. The adoption of these recommendations had no material impact on the results, financial position and cash flows of the Company.

Financial Instruments – Disclosures

In June 2009, CICA issued revisions release no. 54, which includes several amendments to Section 3862, "Financial Instruments – Disclosures". This Section has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosures. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. The Company adopted the amendments to Section 3862 in the fourth quarter and this had no impact on the Company's results, financial position or cash flows.

NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

Business combinations

In January 2009, CICA issued Section 1582, "Business combinations," which replaces Section 1581 of the same title. This section applies prospectively to business combinations for which the date of acquisition is in fiscal years beginning on or after January 1, 2011. The section establishes standards for accounting for a business combination.

Consolidated financial statements and non-controlling interests

In January 2009, CICA issued Section 1601, "Consolidated financial statements," and Section 1602, "Non-Controlling Interests," which together replace Section 1600, "Consolidated financial statements." These sections apply to interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. They establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination.

International Financial Reporting Standards (IFRS)

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

For the Company, conversion to IFRS will be required for financial statements for periods beginning on or after January 1, 2011. Comparative data will have to be restated so as to comply with IFRS. As a result, the Company has developed a plan to convert its financial statements to IFRS bearing on the main items that will be affected, including financial reporting, systems and processes, internal controls and communications and training. This plan is divided into four phases: Phase 1 – Preliminary Diagnosis, Planning and Definition of the Scope, Phase 2 – Detailed Evaluation, Phase 3 – Definition of the Solution and Phase 4 – Implementation.

The Company is currently completing Phases 2 and 3 of its conversion plan, which covers detailed evaluation and definition of the solution.

To carry out the detailed evaluation of potential impact, IFRS have been grouped by topic and distributed among 11 task forces comprising employees from every affected sector of the Company. Members of each task force are responsible for evaluating the impact of the differences between Canadian GAAP and IFRS and for recommending accounting policies to management. During 2009, task forces presented their preliminary conclusions at the Audit Committee meetings. The preliminary opening balance sheet will be presented to the Audit Committee in May 2010.

Phase 4 is expected to begin in early 2010. RONA anticipates completing most of its conversion plan before the end of the second quarter of 2010. Changes in accounting policies are foreseen and are likely to have a significant impact on the Company's consolidated financial statements.

Possible impact of implementation

Further to the preliminary conclusions, comparing IFRS with Canadian GAAP has helped identify a certain number of differences.

IFRS 1, "First-time Adoption of International Financial Reporting Standards", prescribes optional exemptions and mandatory exceptions to the general requirement for full retrospective application of IFRS. RONA analyzes the various possible choices of accounting methods and shall implement the ones it deems most appropriate. Most of the adjustments required for the transition to IFRS shall be done retrospectively to opening retained earnings at the date of the first balance sheet presented in accordance with IFRS.

We have listed below certain differences between the accounting methods that could materially affect the Company's consolidated financial statements, following required changes resulting from the conversion to IFRS. The list and comments are not exhaustive and only represent highlights of the main differences between the accounting methods, as identified by the Company up to now. However, analysis of these changes is not complete and certain decisions need to be made with respect to the choice of accounting methods offered. The organizations setting Canadian GAAP and IFRS are currently working on major projects that could also have repercussions on the final differences between both bases of accounting and on their impact on the Company's consolidated financial statements. The differences highlighted below are based on Canadian GAAP and IFRS in effect as at December 27, 2009. At the present time, the Company is not able to measure with certainty the overall impact of these differences, and others that may arise, on the consolidated financial statements.

Employee future benefits

According to IFRS 1, a first-time adopter does not need to retrospectively restate the cumulative actuarial gains and losses resulting from the application of a corridor approach. Furthermore, the entity may elect to recognize all cumulative actuarial gains and losses in equity at the transition date. Therefore, it reduces the undepreciated portion of the actuarial gains and losses to nil. The exemption is independent of the accounting method used under the previous basis and choice of accounting method under IFRS.

The Company expects to probably avail itself of this optional exemption.

As for the accounting method selection, the Company has not adopted a final decision with regard to the recognition of future actuarial gains or losses.

Fixed assets

According to IAS 23, "Borrowing Costs", entities must record as assets borrowing costs that are directly attributable to a qualifying asset as part of the cost of that asset. According to Canadian GAAP, borrowing costs may be capitalized as part of the cost of an asset if the entity elects this accounting policy.

IFRS 1 allows first-time adopters to elect between prospective application for new capitalization projects of an eligible asset after the date of transition and retrospective application for new capitalization projects of an eligible asset as of a chosen date that may be before the date of transition.

The Company plans to avail itself of this optional exemption to prospectively recognize the borrowing costs that are directly attributable to a qualifying asset.

Certain expenses incurred that precede management's decision to acquire property do not meet the recognition conditions of an asset in accordance with IAS 16, "Property, Plant and Equipment". The cost of an item of property, plant and equipment should be recognized as an asset only if it is probable that future economic benefits associated with the item will flow to the entity and if the cost of the item can be measured reliably. In Canadian GAAP, Section 1000, "Financial Statement Concepts", and Section 3061, "Property, Plant and Equipment", do not have these accounting conditions.

According to IAS 16, "Property, Plant and Equipment", an entity may elect to measure property, plant and equipment using the cost model or the fair value model. The Company plans to elect the cost model.

Always in accordance with IAS 16, each part of property, plant and equipment that has a significant cost compared to the total cost of the item shall be depreciated separately. The Company plans to adopt the component accounting method for its buildings at the date of conversion to IFRS.

Business combinations

IFRS 3, "Business Combinations", requires that transaction costs incurred during the acquisition of a business be charged as expenses. According to Section 1581, "Business Combinations", of Canadian GAAP currently applied by the Company, the costs related directly to the acquisition are part of the capitalizable costs of the transaction.

Profit realized on a sale and leaseback transaction

IAS 17, "Leases", states that if a sale and leaseback transaction results in an operating lease for the lessee, any profit or loss shall be recognized immediately in earnings. However, according to Section 3065, "Leases", of Canadian GAAP, any profit or loss arising on the sale is deferred and taken to income over the lease term. This difference will have an impact on the Company's future results, since all deferred amounts relating to a leaseback transaction shall be reversed to opening retained earnings upon transition to IFRS.

The Company will continue to follow up on proposed and current IASB projects and measure their impact on its conversion process.

Significant accounting estimates

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

Inventory

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

Volume rebates

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

Long-term assets

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

Goodwill and non-amortizable trademarks

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

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

Income taxes

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

Employee future benefits

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

DISCLOSURE OF FINANCIAL INFORMATION

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

DISCLOSURE CONTROLS AND PROCEDURES

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

On December 27, 2009, the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer concluded that the Company's disclosure controls and procedures are properly designed and effective.

INTERNAL CONTROL OVER FINANCIAL REPORTING

RONA has evaluated the design of internal control over financial reporting as at December 27, 2009 in accordance with the MI 52-109 guidelines. This evaluation has allowed the president and chief executive officer and the executive vice president and chief financial officer to conclude that the Company's internal control over financial reporting is effective and provides reasonable assurance that the Company's financial reporting is reliable and that its consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles.

In early October, RONA successfully introduced a new financial suite under an integrated Oracle platform. This project, which was completed on schedule and on budget, is the first in a series of IT projects that RONA intends to deploy in the coming years to ensure ongoing improvements to the Company's operational efficiency and to strengthen its internal control. Implementation of this new financial suite is considered a major change in internal control over financial information in that several new internal financial controls have been introduced to complement or replace certain existing controls.

FORWARD-LOOKING STATEMENTS

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

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

The forward-looking statements in this MD&A reflect the Company's expectations as at February 25, 2010, and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

ADDITIONAL INFORMATION

This MD&A was prepared on February 25, 2010. The reader will find additional information concerning RONA, including the Company's Annual Information Form, on the Company's website at www.rona.ca or on the SEDAR website at www.sedar.com.

Claude Guévin CA
Executive Vice President
and Chief Financial Officer

Robert Dutton
President
and Chief Executive Officer

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 9, 2010

AUDITORS' REPORT TO THE SHAREHOLDERS OF RONA INC.

We have audited the consolidated balance sheets of RONA inc. as at December 27, 2009 and December 28, 2008 and the consolidated statements of earnings, retained earnings, contributed surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 27, 2009 and December 28, 2008 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Raymond Chabot Grant Thornton LLP [1]

Montréal, February 9, 2010

[1] Chartered accountant auditor permit no. 9737

CONSOLIDATED EARNINGS

Years ended December 27, 2009 and December 28, 2008
(In thousands of dollars, except earnings per share)

	2009	2008 (Restated – Note 2)
Sales	**$ 4,677,359**	$ 4,891,122
Earnings before the following items (Note 6)	**332,994**	364,729
Interest on long-term debt	**20,951**	28,106
Interest on bank loans	**2,586**	2,134
Depreciation and amortization (Notes 12,14,15)	**103,160**	100,958
	126,697	131,198
Earnings before income taxes and non-controlling interest	**206,297**	233,531
Income taxes (Note 7)	**62,714**	71,928
Earnings before non-controlling interest	**143,583**	161,603
Non-controlling interest	**5,331**	5,152
Net earnings and comprehensive income	**$ 138,252**	$ 156,451
Net earnings per share (Note 27)		
Basic	**$ 1.12**	$ 1.35
Diluted	**$ 1.11**	$ 1.34

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

CONSOLIDATED RETAINED EARNINGS
CONSOLIDATED CONTRIBUTED SURPLUS

Years ended December 27, 2009 and December 28, 2008
(In thousands of dollars)

	2009	2008 (Restated – Note 2)
Consolidated Retained Earnings		
Balance, beginning of year, as previously reported	**$ 1,053,166**	$ 892,967
Change in accounting policy – Goodwill and intangible assets (Note 2)	**(24,290)**	(20,542)
Restated balance, beginning of year	**1,028,876**	872,425
Net earnings	**138,252**	156,451
	1,167,128	1,028,876
Expenses relating to the issue of common shares, net of income tax recovery of $2,042	**5,320**	–
Balance, end of year	**$ 1,161,808**	$ 1,028,876
Consolidated Contributed Surplus		
Balance, beginning of year	**$ 12,563**	$ 11,045
Compensation cost relating to stock option plans	**946**	1,518
Exercise of stock options	**(34)**	–
Balance, end of year	**$ 13,475**	$ 12,563

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

CONSOLIDATED CASH FLOWS

Years ended December 27, 2009 and December 28, 2008
(In thousands of dollars)

	2009	2008 (Restated– Note 2)
Operating activities		
Net earnings	$ 138,252	$ 156,451
Non-cash items		
Depreciation and amortization	103,160	100,958
Derivative financial instruments	(1,116)	1,192
Future income taxes	9,225	(2,917)
Net gain on disposal of assets	(2,358)	(2,796)
Impairment charge on fixed assets held for sale	2,050	–
Compensation cost relating to stock option plans	946	1,518
Compensation cost relating to share unit plans	2,557	1,091
Non-controlling interest	5,331	5,152
Other items	1,975	3,465
	260,022	264,114
Changes in working capital items (Note 8)	22,752	83,373
Cash flows from operating activities	282,774	347,487
Investing activities		
Business acquisitions (Note 9)	(3,734)	(4,824)
Advances to joint ventures and other advances	5	8,139
Other investments	(3,995)	(3,155)
Fixed assets	(115,713)	(161,869)
Intangible assets	(46,186)	(34,276)
Other assets	(4,837)	(10,565)
Disposal of fixed assets	6,291	11,686
Disposal of investments	2,422	10,618
Cash flows from investing activities	(165,747)	(184,246)
Financing activities		
Bank loans and revolving credit	(43,046)	(131,518)
Other long-term debt	646	8,560
Repayment of other long-term debt and redemption of preferred shares	(15,819)	(33,946)
Issue of common shares	176,936	5,592
Cash dividends paid by a subsidiary to non-controlling interest	(1,470)	(2,450)
Expenses relating to the issue of common shares	(7,362)	–
Cash flows from financing activities	109,885	(153,762)
Net increase in cash	226,912	9,479
Cash, beginning of year	12,345	2,866
Cash, end of year	$ 239,257	$ 12,345
Supplementary information		
Interest paid	$ 25,493	$ 33,165
Income taxes paid	$ 49,450	$ 75,508

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

CONSOLIDATED BALANCE SHEETS
December 27, 2009 and December 28, 2008
(In thousands of dollars)

	2009	2008 (Restated – Note 2)
Assets		
Current assets		
Cash	**$ 239,257**	$ 12,345
Accounts receivable (Note 10)	**250,845**	234,027
Income taxes receivable	**2,436**	6,475
Inventory (Note 5)	**726,262**	763,239
Prepaid expenses	**18,114**	11,202
Derivative financial instruments (Note 23)	**801**	1,089
Future income taxes (Note 7)	**15,914**	19,274
	1,253,629	1,047,651
Investments (Note 11)	**11,978**	10,186
Fixed assets (Note 12)	**868,359**	822,375
Fixed assets held for sale (Note 13)	**13,242**	34,870
Goodwill	**455,572**	454,889
Intangible assets (Note 14)	**89,828**	57,056
Other assets (Note 15)	**29,682**	27,210
Future income taxes (Note 7)	**27,593**	24,681
	$ 2,749,883	$ 2,478,918
Liabilities		
Current liabilities		
Bank loans (Note 16)	**$ 5,211**	$ 8,468
Accounts payable and accrued liabilities	**427,817**	422,318
Derivative financial instruments (Note 23)	**776**	2,180
Future income taxes (Note 7)	**4,900**	4,461
Instalments on long-term debt (Note 17)	**9,996**	15,696
	448,700	453,123
Long-term debt (Note 17)	**430,524**	478,475
Other long-term liabilities (Note 18)	**31,317**	28,571
Future income taxes (Note 7)	**27,542**	21,304
Non-controlling interest	**32,761**	29,220
	970,844	1,010,693
Shareholders' equity		
Capital stock (Note 20)	**603,756**	426,786
Retained earnings	**1,161,808**	1,028,876
Contributed surplus	**13,475**	12,563
	1,779,039	1,468,225
	$ 2,749,883	$ 2,478,918

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

On behalf of the Board,

J. Spencer Lanthier
Chairman of the Audit Committee

Jean Gaulin
Chairman of the Board of Directors

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 27, 2009 and December 28, 2008
(In thousands of dollars, except amounts per share)

1. Governing statutes and nature of operations

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

2. Changes in accounting policies

Goodwill and intangible assets

At the beginning of 2009, the Company, in accordance with transitional provisions, retroactively adopted Section 3064 of the Canadian Institute of Chartered Accountants' (CICA) Handbook, *Goodwill and intangible assets,* which replaces Section 3062 of the same title. The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including internally generated intangible assets. Pre-opening expenses for stores and distribution centres (previously included in other assets), advertising costs, including those related to store openings and costs incurred for Olympic and Paralympic sponsorship (previously included in prepaid expenses) no longer meet the capitalization criteria of the new section. The balances in these asset accounts as at December 31, 2007– that is, at the beginning of first quarter 2008 – were restated and included in retained earnings and the results of operations of 2008 were also restated. In addition, certain amounts previously included in fixed assets were reclassified to intangible assets as a result of this change in accounting policy.

The impact of the recommendations of the new section on the consolidated financial statements is as follows:

	December 28, 2008		
	Previously reported	Adjustments	Restated
Consolidated Earnings			
Earnings before the following items	$ 377,101	$ (12,372)	$ 364,729
Depreciation and amortization	108,091	(7,133)	100,958
Income taxes	73,541	(1,613)	71,928
Non-controlling interest	5,030	122	5,152
Net earnings and comprehensive income	160,199	(3,748)	156,451
Net earnings per share – basic	1.39	(0.04)	1.35
Net earnings per share – diluted	1.37	(0.03)	1.34
Consolidated Cash Flows			
Net earnings	$ 160,199	$ (3,748)	$ 156,451
Depreciation and amortization	108,091	(7,133)	100,958
Future income taxes	(1,733)	(1,184)	(2,917)
Non-controlling interest	5,030	122	5,152
Changes in working capital items	75,336	9,128	84,464
Fixed assets	(196,145)	34,276	(161,869)
Intangible assets	–	(34,276)	(34,276)
Other assets	(13,380)	2,815	(10,565)
Consolidated Balance Sheets			
Assets			
Income taxes receivable	$ 6,046	$ 429	$ 6,475
Prepaid expenses	33,104	(21,902)	11,202
Future income taxes – current	13,800	5,474	19,274
Fixed assets	875,634	(53,259)	822,375
Intangible assets	3,797	53,259	57,056
Other assets	38,466	(11,256)	27,210
Liabilities			
Future income taxes – current	4,854	(393)	4,461
Future income taxes – long-term	23,998	(2,694)	21,304
Non-controlling interest	29,098	122	29,220
Retained earnings – beginning of year	892,967	(20,542)	872,425

2. Changes in accounting policies (continued)

Credit risk and the fair value of financial assets and financial liabilities

In January 2009, the Emerging Issues Committee of the CICA issued EIC–173, *Credit risk and the fair value of financial assets and financial liabilities,* which provides guidance on how to measure financial assets and liabilities, taking into account the company's own credit risk and the counterparty credit risk in determining the fair value of financial assets and financial liabilities including financial derivatives. The adoption of these recommendations had no material impact on the results, financial position and cash flows of the Company.

Financial instruments – disclosures

In June 2009, the CICA issued revisions release no. 54, which includes several amendments to Section 3862, *Financial instruments – disclosures.* This Section has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosures. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009. The Company adopted the amendments to Section 3862 in the fourth quarter and this had no impact on the Company's results, financial position or cash flows.

3. Effect of new accounting standards not yet implemented

Business combinations

In January 2009, the CICA issued Section 1582, *Business combinations,* which replaces Section 1581 of the same title. This section applies prospectively to business combinations for which the date of acquisition is in fiscal years beginning on or after January 1, 2011. The section establishes standards for accounting for a business combination.

Consolidated financial statements and non-controlling interests

In January 2009, the CICA issued Section 1601, *Consolidated financial statements,* and Section 1602, *Non-controlling interests,* which together replace Section 1600, *Consolidated financial statements.* These sections apply to interim and annual consolidated financial statements for fiscal years beginning on or after January 1, 2011. They establish standards for the preparation of consolidated financial statements and accounting for a non-controlling interest in a subsidiary in the consolidated financial statements subsequent to a business combination.

International financial reporting standards (IFRS)

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

The Company is currently evaluating the impact of these new standards on its consolidated financial statements.

4. Summary of significant accounting policies

Accounting estimates

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

Principles of consolidation

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

Revenue recognition

The Company recognizes revenue at the time of sale in stores or upon delivery of the merchandise, when the sale is accepted by the customer and when collection is reasonably assured. Interest relating to receivables and loans and advances is recorded monthly in accordance with contractual provisions.

Inventory valuation

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

Vendor rebates

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

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

Customer rebates

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

Fixed assets

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

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

Impairment of long-term assets

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

Intangible assets

Software and trademarks with definite lives are recorded at cost. Trademarks are amortized on a straight-line basis over periods ranging from five to seven years and software is amortized on a straight-line basis over periods ranging from four to ten years. The amortization method and estimate of useful life are reviewed annually.

Trademarks with indefinite lives are tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized when the carrying amount of the asset exceeds its fair value.

4. Summary of significant accounting policies (continued)

Goodwill

Goodwill is the excess of the cost of acquired enterprises over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is not amortized and is tested for impairment annually or more frequently if events or changes in circumstances indicate that it is impaired. The impairment test consists of a comparison of the fair 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.

Other assets

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

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

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

Income taxes

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

Other long-term liabilities

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

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

Stock option plans

The Company accounts for options issued according to the fair value based method. Compensation cost is measured at the grant date and is 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.

Share unit plan for officers

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

Share unit plan for directors

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

Foreign currency translation

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

Financial instruments

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

- Cash is classified as a "financial asset held for trading" and is measured at fair value. All changes in fair value are recognized in earnings;
- Accounts receivable and long-term loans and advances (included in investments) are classified as "loans and receivables" and are recognized at cost which, at initial measurement, corresponds to fair value. Subsequent revaluations of accounts receivable are recorded at amortized cost which generally corresponds to initial measurement less any allowance for doubtful accounts. Subsequent revaluations of long-term loans and advances are recognized at amortized cost using the effective interest method;
- Bank loans, accounts payable and accrued liabilities and the revolving credit are classified as "other financial liabilities". They are initially measured at fair value and subsequent revaluations are recognized at amortized cost using the effective interest method;
- Long-term debt is classified as "other financial liabilities". With the exception of the revolving credit, long-term debt is measured at amortized cost, which corresponds to the initially recognized amount plus accumulated amortization of financing costs. The initially recognized amount corresponds to the principal amount of the debt less applicable financing costs;
- The Company uses derivative financial instruments to manage foreign exchange risk. The Company does not use derivative financial instruments for speculative or trading purposes. The derivatives are classified as "assets or liabilities held for trading" and are measured at fair value;
- Transaction costs related to other financial liabilities are recorded as a reduction in the carrying amount of the related financial liability;
- The Company records as a separate asset or liability only those derivatives embedded in hybrid financial instruments issued, acquired or substantially modified by the Company as of December 29, 2002 when these hybrid instruments are not recorded as held for trading and remained outstanding at January 1, 2007. Embedded derivatives that are not closely related to the host contracts must be separated from the host contract, classified as a financial instrument held for trading and measured at fair value with changes in fair value recognized in earnings. The Company has not identified any embedded derivatives to be separated other than derivatives embedded in purchase contracts concluded in a foreign country and settled in a foreign currency that is not the conventional currency of either of the two principal parties to the contract. Although the payments are made in a foreign currency that is routinely used in the economic environment where the transaction occurred, the Company has decided to separate the embedded derivatives.

4. Summary of significant accounting policies (continued)

Employee future benefits

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

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

- The actuarial determination of the accrued benefit obligations for pension uses the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees;
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- Past service costs from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendments;
- Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligations. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligations and the fair value of plan assets is amortized over the average remaining service period of the active employees. The average remaining service period of the active employees covered by the pension plans is 12 years (12 years as at December 28, 2008);
- The transitional obligation is amortized on a straight-line basis over a period of 10 years, which is the average remaining service period of employees expected to receive benefits under the benefit plan in 2000.

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

Earnings per share and information pertaining to number of shares

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

Fiscal year

The Company's fiscal year ends on the last Sunday of December. The fiscal years ended December 27, 2009 and December 28, 2008 include 52 weeks of operations.

Comparative figures

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

5. Inventory

For the year ended December 27, 2009, an amount of $3,397,928 of inventory was expensed in the consolidated results ($3,571,962 as at December 28, 2008). This amount includes an inventory write-down charge of $35,986 ($46,752 as at December 28, 2008).

6. Store closing costs

Exit and disposal costs and write-down of assets

In April 2008, management approved a detailed plan to close four of its stores included in the corporate and franchised stores segment. Three of these stores were closed in 2008 and one was closed in the second quarter of 2009. During the year ended December 27, 2009, the Company recognized the following costs:

	2009	2008
Lease obligations	**$ 14,355**	$ 4,231
Inventory write-down	**525**	2,214
Termination benefits	**–**	277
Total recorded in earnings before the following items	**14,880**	6,722
Fixed assets write-down	**–**	2,857
Total costs	**$ 14,880**	$ 9,579

The liability for exit and disposal costs and write-down of assets, included in accounts payable and accrued liabilities, is as follows:

	2009	2008
Balance, beginning of year	**$ 3,575**	$ –
Costs recognized:		
Lease obligations	**14,355**	4,231
Termination benefits	**–**	277
Less: cash payments	**(3,590)**	(933)
Balance, end of year	**$ 14,340**	$ 3,575

Other closing costs

During the year ended December 27, 2009, in addition to the exit and disposal costs and write-down of assets, the Company recorded operating costs, including interest and depreciation, for the liquidation of the assets of these stores in the amount of $1,230 ($5,202 as at December 28, 2008).

7. Income taxes

	2009	2008
Current	**$ 53,489**	$ 74,845
Future	**9,225**	(2,917)
	$ 62,714	$ 71,928

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

7. Income taxes (continued)

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

	2009	2008
Federal statutory income tax rate	**19.0%**	19.5%
Statutory rate of various provinces	**11.6**	11.2
Combined statutory income tax rate	**30.6**	30.7
Non-deductible costs	**0.3**	0.3
Other	**(0.5)**	(0.2)
Effective income tax rate	**30.4%**	30.8%

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

	2009	2008
Future income tax assets		
Current		
Non-capital loss carry-forwards	**$ 1,257**	$ 1,325
Direct costs related to business acquisitions	**338**	700
Provisions not deducted and other	**14,319**	17,249
	$ 15,914	$ 19,274
Long-term		
Non-capital loss carry-forwards	**$ 8,850**	$ 7,602
Fixed assets	**7,082**	7,095
Deferred gain on sale and leaseback transaction	**3,179**	3,645
Goodwill	**948**	1,101
Expenses relating to the issue of common shares	**1,633**	–
Deferred revenue and other	**5,901**	5,238
	$ 27,593	$ 24,681
Future income tax liabilities		
Current		
Incentive payments received	**$ 2,408**	$ 2,691
Other	**2,492**	1,770
	$ 4,900	$ 4,461
Long-term		
Fixed assets	**$ 13,853**	$ 10,698
Goodwill	**7,524**	5,842
Pension plans	**3,276**	2,395
Other	**2,889**	2,369
	$ 27,542	$ 21,304

8. Cash flow information

The changes in working capital items are detailed as follows:

	2009	2008
Accounts receivable	**$ (14,777)**	$ (6,518)
Inventory	**38,155**	94,455
Prepaid expenses	**(6,912)**	798
Accounts payable and accrued liabilities	**2,247**	(5,743)
Income taxes payable	**4,039**	381
	$ 22,752	$ 83,373

9. Business acquisitions

During 2009, the Company acquired one company (two companies in 2008), operating in the corporate and franchised stores segment, by way of an asset purchase. Taking direct acquisition costs into account, these acquisitions were for a total consideration of $3,734 ($5,622 in 2008). The Company financed these acquisitions from its existing credit facilities. The results of operations of these companies are consolidated from their date of acquisition.

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

	2009	2008
Accounts receivable	**$ 1,125**	$ 2,697
Inventory	**1,177**	2,997
Other current assets	**61**	66
Fixed assets	**105**	4,658
Goodwill	**1,266**	2,725
Current liabilities	**–**	(4,413)
Long-term debt	**–**	(3,108)
	3,734	5,622
Less:		
Accrued direct acquisition costs	**–**	(48)
Balances of purchase prices	**–**	(750)
Cash consideration paid	**$ 3,734**	$ 4,824

The Company expects that an amount of $944 ($1,206 in 2008) of goodwill will be deductible for tax purposes.

10. Accounts receivable

	2009	2008
Trade accounts		
Affiliated and franchised stores	**$ 73,963**	$ 63,361
Joint ventures	**5,475**	6,443
Other (retail customers)	**161,879**	155,689
Other accounts receivable	**6,884**	6,806
Portion of investments receivable within one year	**2,644**	1,728
	$250,845	$ 234,027

11. Investments

	2009	2008
Companies subject to significant influence		
Shares, at equity value	**$ 4,495**	$ 3,342
Preferred shares, at cost, redeemable over 10 years, maturing in 2011	**160**	240
Loans and advances, at cost		
Mortgages and term notes, weighted average rate of 4.6% (5.9% in 2008), maturing at various dates until 2016	**9,107**	7,667
Other	**860**	665
	14,622	11,914
Portion receivable within one year	**2,644**	1,728
	$ 11,978	$ 10,186

The consolidated statement of earnings includes dividend income of $0 ($29 in 2008) and interest income of $2,202 ($3,466 in 2008).

12. Fixed assets

	2009			2008		
	Cost	**Accumulated depreciation**	**Net**	Cost	Accumulated depreciation	Net
Land and parking lots	**$ 206,669**	**$ 21,653**	**$ 185,016**	$ 170,279	$ 16,359	$ 153,920
Buildings	**277,229**	**57,236**	**219,993**	259,219	45,919	213,300
Leasehold improvements	**207,232**	**100,022**	**107,210**	187,360	85,146	102,214
Furniture and equipment	**358,615**	**208,742**	**149,873**	333,593	181,992	151,601
Computer hardware	**125,962**	**93,645**	**32,317**	115,237	81,990	33,247
Projects in process (a)	**65,685**	**–**	**65,685**	62,819	–	62,819
Land for future development	**99,750**	**–**	**99,750**	91,707	–	91,707
Assets under capital leases (b)						
Furniture and equipment	**15,076**	**8,227**	**6,849**	15,501	6,616	8,885
Computer hardware	**20,198**	**18,532**	**1,666**	21,252	16,570	4,682
	$1,376,416	**$ 508,057**	**$ 868,359**	$ 1,256,967	$ 434,592	$ 822,375

(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 $871 ($2,743 in 2008) of assets under capital leases.

Depreciation of fixed assets amounts to $84,252 ($84,350 of depreciation and $2,857 relating to a fixed asset write-down in 2008).
For the year ended December 27, 2009, capitalized interest on fixed assets amounts to $4,514 ($6,112 in 2008).

13. Fixed assets held for sale

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

During 2009, the Company disposed of four parcels of land and four buildings which had been held for sale (four parcels of land and four buildings in 2008) and recorded a gain on disposal of $2,351 ($3,691 in 2008). During the year, the Company reclassified $27,420 in fixed assets held for sale for more than one year to fixed assets. Given the real estate market downturn during the past months and despite the fact that the Company has taken the necessary measures to address these new market conditions, these assets no longer meet the criteria for presentation as fixed assets held for sale. This reclassification had no impact on the Company's results.

The fixed assets held for sale as at December 27, 2009 and December 28, 2008 meet the presentation criteria.

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

	2009	2008
Balance, beginning of year	**$ 34,870**	$ –
Additions	**8,854**	41,170
Disposals	**(1,012)**	(6,300)
Impairment charge	**(2,050)**	–
Reclassification to fixed assets	**(27,420)**	–
Balance, end of year	**$ 13,242**	$ 34,870

14. Intangible assets

	2009			2008		
	Cost	**Accumulated amortization**	**Net**	Cost	Accumulated amortization	Net
Intangible assets with definite lives						
Trademarks	**$ 2,174**	**$ 1,348**	**$ 826**	$ 2,174	$ 698	$ 1,476
Software	**143,835**	**57,154**	**86,681**	98,326	45,067	53,259
	146,009	**58,502**	**87,507**	100,500	45,765	54,735
Intangible assets with indefinite lives						
Trademarks	**2,321**	**–**	**2,321**	2,321	–	2,321
	$ 148,330	**$ 58,502**	**$ 89,828**	$ 102,821	$ 45,765	$ 57,056

Amortization of intangible assets amounts to $13,414 ($10,558 in 2008).
For the year ended December 27, 2009, capitalized interest on software amounts to $1,485 ($477 in 2008).

15. Other assets

	2009	2008
At unamortized cost		
Financing costs	**$ 2,776**	$ 3,670
Costs related to sale and leaseback agreements	**2,612**	2,879
Dealer recruitment costs	**11,317**	10,765
Accrued benefit asset (Note 24)	**12,977**	9,896
	$ 29,682	$ 27,210

Amortization of other assets amounts to $5,494 ($3,193 in 2008).

16. Credit facilities

a) Parent company and some subsidiaries

Revolving credit

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

Credit facilities can also be used to issue letters of guarantee and credit letters for imports. At December 27, 2009, the letters of guarantee issued amount to $1,717. For 2009, the weighted average interest rate on the revolving credit is 1.9% (4.5% in 2008).

The Company is required to meet certain financial ratios. At December 27, 2009 and December 28, 2008, the Company is in compliance with these requirements.

Letters of credit

The Company has also set up an unsecured credit facility up to an amount of $55,000, utilized for the issuance of letters of credit for imports. The terms and conditions to be respected are the same as for the revolving credit. At December 27, 2009, the amount used is $33,332 ($31,258 in 2008).

b) Other subsidiaries

Bank loans are secured by an assignment of certain assets in the amount of $40,033 ($36,815 in 2008). These bank loans bear interest at rates varying from prime rate to prime rate plus 0.5% and are renewable annually. At December 27, 2009, the interest rates varied from 2.25% to 2.75% (3.5% to 3.75% in 2008). The amount authorized for these credit facilities is $18,500 ($21,000 in 2008) and the amount used is $4,815 ($7,340 in 2008).

c) Joint ventures

Bank loans are secured by an assignment of certain assets. The Company's share of these assets amounts to $9,440 ($10,672 in 2008). These bank loans bear interest at rates varying from prime rate to prime rate plus 1% and are renewable annually. At December 27, 2009, the interest rates varied from 2.25% to 3.25% (3.5% to 4.5% in 2008). The amount authorized for these credit facilities is $18,400 ($17,200 in 2008) and the amount used is $396 ($1,128 in 2008).

17. Long-term debt

	2009	2008
Revolving credit, weighted average rate of 1.9% (4.5% in 2008) (Note 16 a)	**$ –**	$ 39,789
Debentures, unsecured, par value $400,000, rate of 5.4%, due in 2016 [(a)]	**396,564**	396,182
Mortgage loans, secured by assets having a depreciated cost of $66,300 ($58,557 in 2008), rates varying from prime less 0.25% to 8.5% (1.68% to 7.95% in 2008), maturing on various dates until 2023	**33,561**	37,524
Obligations under capital leases, rates varying from 2.9% to 12.4% (0% to 12.4% in 2008), maturing on various dates until 2017	**6,953**	11,058
Balances of purchase prices, varying from prime less 1% to 3%, payable on various dates until 2010	**442**	5,618
Shares issued and fully paid 3,000,000 Class D preferred shares (4,000,000 shares in 2008) [(b)]	**3,000**	4,000
	440,520	494,171
Instalments due within one year	**9,996**	15,696
	$ 430,524	$ 478,475

(a) Effective rate of 5.5%.

(b) During the year, the Company redeemed 1,000,000 shares (1,000,000 shares in 2008) for a cash consideration of $1,000 ($1,000 in 2008). These shares are redeemable over a period of ten years.

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

	Obligations under capital leases	Long-term loans and shares
2010	**$ 3,818**	**$ 6,395**
2011	**2,073**	**9,388**
2012	**747**	**8,336**
2013	**256**	**5,268**
2014	**199**	**3,163**
2015 and subsequent years	**202**	**404,663**
Total minimum lease payments	**7,295**	
Financial expenses included in minimum lease payments	**342**	
	$ 6,953	

18. Other long-term liabilities

	2009	2008
Deferred gain on sale and leaseback transaction	**$ 11,324**	$ 12,470
Deferred lease obligations	**19,993**	16,101
	$ 31,317	$ 28,571

19. Guarantees, commitments and contingencies

Guarantees

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

The Company guarantees mortgages for an amount of $1,305. The terms of these loans extend until 2012 and the net carrying amount of the assets held as security, which mainly include land and buildings, is $5,688.

Pursuant to the terms of inventory repurchase agreements, the Company is committed towards financial institutions to buy back the inventory of certain customers at an average of 61% of the cost of the inventories to a maximum of $71,768. In the event of recourse, this inventory would be sold in the normal course of the Company's operations. These agreements have undetermined periods but may be cancelled by the Company with a 30-day advance notice. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low.

Commitments

The Company has entered into lease agreements expiring until 2018 which call for lease payments of $66,134 for the rental of automotive equipment, computer equipment, distribution equipment, a warehouse and the building housing the head office and the distribution centre in Quebec.

The Company has also entered into lease agreements expiring until 2029 for corporate store space for minimum lease payments of $987,856.

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 $82,683 for the rental of premises and land on which the Company erected a building. In consideration thereof, the Company has signed subleasing agreements totalling $81,979.

The minimum lease payments (minimum amounts receivable) under lease agreements for the next five years are $123,334 ($10,033) in 2010, $117,116 ($10,077) in 2011, $108,323 ($10,037) in 2012, $99,597 ($9,787) in 2013 and $91,998 ($8,571) in 2014.

19. Guarantees, commitments and contingencies (continued)

Commitments (continued)

In 2005, the Company entered into an eight-year partnership agreement for Olympic and Paralympic sponsorship valued at $60,000. Moreover, in 2006 the Company committed an additional amount of $7,000 to financial support programs for athletes. At December 27, 2009, the balance due on these agreements is $13,725, i.e. $9,925 in 2010, $1,900 in 2011 and $1,900 in 2012.

Contingencies

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

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

20. Capital stock

Authorized

Unlimited number of shares
- Common shares
- Class A preferred shares, issuable in series
  - Series 5, non-cumulative dividend equal to 70% of prime rate, redeemable at their issuance price
- Class B preferred shares, 6% non-cumulative dividend, redeemable at their par value of $1 each
- Class C preferred shares, issuable in series
  - Series 1, non-cumulative dividend equal to 70% of prime rate, redeemable at their par value of $1,000 each
- Class D preferred shares, 4% cumulative dividend, redeemable at their issue price.
  - Beginning in 2003, these shares are redeemable at their issue price over a maximum period of ten years on the basis of 10% per year (Note 17)

Issued and fully paid:

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

		2009		2008
	Number of shares	**Amount**	Number of shares	Amount
Balance, beginning of year	**115,819,699**	**$423,477**	115,412,766	$ 418,246
Issuance in exchange for common share subscription deposits	**328,692**	**3,744**	197,854	3,349
Issuance under stock option plans	**113,775**	**502**	89,000	309
Issuance in exchange for cash [(a)]	**13,391,217**	**172,736**	120,079	1,573
Balance before elimination of reciprocal shareholdings	**129,653,383**	**600,459**	115,819,699	423,477
Elimination of reciprocal shareholdings	**(80,251)**	**(524)**	(72,396)	(435)
Balance, end of year	**129,573,132**	**599,935**	115,747,303	423,042
Deposits on common share subscriptions, net of eliminations of joint ventures [(b)]		**3,821**		3,744
		$603,756		$ 426,786

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

(b) Deposits on common share subscriptions represent amounts received during the year from affiliated and franchised merchants in accordance with commercial agreements. These deposits are exchanged for common shares on an annual basis. If the subscription deposits had been exchanged for common shares as at December 27, 2009, the number of outstanding common shares would have increased by 251,114.

21. Stock-based compensation

Stock option plans

Stock option plan of May 1, 2002

The Company adopted a stock option plan for designated senior executives which was approved by the shareholders on May 1, 2002. A total of 2,920,000 options were granted at that date. Options granted under the plan may be exercised since the Company made a public share offering on November 5, 2002. The Company could grant options for a maximum of 3,740,000 common shares. As at December 27, 2009, the 2,920,000 options granted have an exercise price of $3.47 and of this number, 1,645,500 options (1,538,500 options as at December 28, 2008) were exercised.

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

No compensation cost was expensed with respect to this plan for the years ended December 27, 2009 and December 28, 2008.

Stock option plan of October 24, 2002

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

On March 8, 2007, the Board of Directors approved certain modifications to the plan. These modifications, approved by the shareholders at the annual shareholders' meeting on May 8, 2007, establish that this plan is no longer applicable to the designated directors of the Company and provide for the replacement of the terms and conditions for granting options under the plan by a more flexible mechanism for setting the terms and conditions for granting options. The Board of Directors will adopt the most appropriate terms and conditions relative to each type of grant. For the options granted on March 8, 2007, February 29, 2008, December 9, 2008 and March 11, 2009, the Board approved the option grants with vesting over a four-year period following the anniversary date of the grants at 25% per year.

21. Stock-based compensation (continued)

Stock option plans (continued)

As at December 27, 2009, the 2,475,752 options (1,959,052 options as at December 28, 2008) granted have exercise prices ranging from $10.62 to $26.87 ($10.86 to $26.87 as at December 28, 2008) and of this number, 91,875 options (85,100 options as at December 28, 2008) have been exercised and 691,525 options (274,450 options as at December 28, 2008) have been forfeited.

The fair value of stock options granted of $4.11 ($4.39 in 2008) was estimated at the grant date using the Black-Scholes option-pricing model on the basis of the following weighted average assumptions for the stock options granted during the period:

	2009	2008
Risk-free interest rate	**1.98%**	3.19%
Expected volatility in stock price	**35%**	26%
Expected annual dividend	**0%**	0%
Expected life (years)	**6**	6

Compensation cost expensed with respect to this plan amounts to $946 for the year ended December 27, 2009 ($1,518 as at December 28, 2008).

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

		2009		2008
	Options	**Weighted average exercise price**	Options	Weighted average exercise price
Balance, beginning of year	**2,981,002**	**$ 11.46**	2,922,552	$ 11.31
Granted	**516,700**	**10.62**	258,200	13.99
Exercised	**(113,775)**	**4.11**	(89,000)	3.47
Forfeited	**(417,075)**	**19.47**	(110,750)	20.07
Balance, end of year	**2,966,852**	**10.47**	2,981,002	11.46
Options exercisable, end of year	**1,906,969**	**$ 7.72**	1,965,569	$ 7.22

The following table summarizes information relating to stock options outstanding as at December 27, 2009:

Exercise price	**Expiration date**	**Options outstanding**	**Options exercisable**
$ 3.47	January 1, 2012	**1,274,500**	**1,274,500**
$ 10.62	March 11, 2019	**498,500**	**–**
$ 10.86	December 9, 2018	**15,000**	**3,750**
$ 14.18	March 1, 2018	**198,425**	**50,600**
$ 14.29	December 16, 2013	**404,650**	**404,650**
$ 20.27	December 22, 2014	**96,000**	**96,000**
$ 21.21	February 24, 2016	**301,000**	**–**
$ 21.78	September 1, 2016	**17,576**	**4,394**
$ 23.58	March 8, 2017	**143,625**	**73,075**
$ 26.87	February 24, 2016	**17,576**	**–**
		2,966,852	**1,906,969**

Share unit plan for officers

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

	2009	2008
	RSU	RSU
Number of units:		
Balance, beginning of year	**229,360**	79,560
Granted	**495,450**	165,850
Forfeited	**(42,270)**	(16,050)
Balance, end of year	**682,540**	229,360

The expense recorded in the consolidated statement of earnings for the year ended December 27, 2009 amounts to $1,568 ($651 in 2008).

Share unit plan for directors

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

	2009	2008
	DSU	DSU
Number of units:		
Balance, beginning of year	**103,421**	40,153
Directors' compensation	**45,718**	63,268
Balance, end of year	**149,139**	103,421

The expense recorded in the consolidated statement of earnings for the year ended December 27, 2009 amounts to $989 ($440 in 2008).

22. Capital disclosures

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

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

As at December 27, 2009, the Company's net debt-to-capital ratio is 10.4% (25.0% as at December 28, 2008).

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

The Company's credit facilities include certain covenants affecting, among others, the leverage ratio and the interest coverage ratios. These ratios are submitted to the Board of Directors each quarter and, as at December 27, 2009 and December 28, 2008, the Company is in compliance with the ratios. Other than covenants related to its credit facilities, the Company is not subject to any other externally imposed capital requirements.

23. Financial instruments

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

		2009		2008
	Carrying amount	**Fair value**	Carrying amount	Fair value
Financial assets held for trading				
Cash	**$ 239,257**	**$ 239,257**	$ 12,345	$ 12,345
Derivative financial instruments	**801**	**801**	1,089	1,089
Loans and receivables				
Accounts receivable	**250,845**	**250,845**	234,027	234,027
Loans and advances	**9,107**	**9,337**	7,667	7,877
Financial liabilities				
Bank loans	**5,211**	**5,211**	8,468	8,468
Accounts payable and accrued liabilities	**427,817**	**427,817**	422,318	422,318
Revolving credit	**–**	**–**	39,789	39,789
Debentures	**396,564**	**383,800**	396,182	302,640
Mortgage loans and balances of purchase prices	**34,003**	**35,237**	43,142	43,945
Preferred shares	**3,000**	**3,000**	4,000	4,000
Financial liabilities held for trading				
Derivative financial instruments	**776**	**776**	2,180	2,180

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

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

Fair value hierarchy

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

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

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

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

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

	Level 1	**Level 2**	**Level 3**	**Total**
Asset				
Cash	**$ 239,257**	**$ –**	**$ –**	**$ 239,257**
Derivative financial instruments	**–**	**801**	**–**	**801**
Liabilities				
Derivative financial instruments	**–**	**776**	**–**	**776**

23. Financial instruments (continued)

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

	2009	2008
Interest on accounts receivable	**$ (2,942)**	$ (2,603)
Interest on long-term loans and advances	**(2,202)**	(3,466)
Dividends on redeemable preferred shares	**–**	(29)
Interest on bank loans	**2,586**	2,134
Interest on long-term debt	**20,951**	28,106
Loss on fair value of derivative financial instruments	**462**	846

Credit risk

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

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

The aging of accounts receivable is as follows:

	2009	2008
Current	**$187,623**	$ 168,836
Past due 0 - 30 days	**37,231**	36,342
Past due 31-120 days	**18,276**	20,076
Past due over 121 days	**11,417**	12,549
Trade accounts receivable	**254,547**	237,803
Less: allowance for doubtful accounts	**13,230**	12,310
	$241,317	$ 225,493

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

	2009	2008
Balance, beginning of year	**$ 12,310**	$ 10,181
Doubtful accounts expense	**4,038**	3,384
Write-offs and recoveries	**(3,118)**	(1,255)
Balance, end of year	**$ 13,230**	$ 12,310

As at December 27, 2009, the maximum exposure to credit risk is $500,010 ($255,128 as at December 28, 2008) which represents the carrying amount of financial instruments classified as assets, including cash in the amount of $239,257 ($12,345 in 2008).

Liquidity risk

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

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

	2009					2008				
	Total	**Less than 1 year**	**1 - 2 years**	**3 - 4 years**	**5 years and more**	Total	Less than 1 year	1 - 2 years	3 - 4 years	5 years and more
Revolving credit	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**	$ 39,789	$ –	$ –	$ 39,789	$ –
Debentures	**556,556**	**21,600**	**43,200**	**43,200**	**448,556**	578,156	21,600	43,200	43,200	470,156
Mortage loans and balances of purchase prices	**34,213**	**5,395**	**15,724**	**8,431**	**4,663**	43,386	9,962	10,184	14,977	8,263
Obligations under capital leases	**7,295**	**3,818**	**2,820**	**455**	**202**	11,467	5,016	5,561	819	71
Preferred shares	**3,000**	**1,000**	**2,000**	**–**	**–**	4,000	1,000	2,000	1,000	–
Bank loans	**5,211**	**5,211**	**–**	**–**	**–**	8,468	8,468	–	–	–
Accounts payable and accrued liabilities	**418,257**	**418,257**	**–**	**–**	**–**	412,698	412,698	–	–	–
Derivative financial instruments	**776**	**776**	**–**	**–**	**–**	2,180	2,180	–	–	–
Total	**$1,025,308**	**$ 456,057**	**$ 63,744**	**$ 52,086**	**$ 453,421**	$ 1,100,144	$ 460,924	$ 60,945	$ 99,785	$ 478,490

Exchange risk

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

As at December 27, 2009, the par value of forward exchange contracts is US$70,700. The average rate of these contracts is 1.0612 and they expire on various dates until September 2010.

On December 27, 2009, a 1% increase or decrease in the exchange rate of the Canadian dollar compared to the U.S. dollar, assuming that all other variables are constant, would have resulted in a $37 ($144 in 2008) decrease or increase in the Company's net earnings for the year ended December 27, 2009.

Interest rate risk

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

23. Financial instruments (continued)

Interest rate risk (continued)

On December 27, 2009, a 25-basis-point increase or decrease in interest rates, assuming that all other variables are constant, would have resulted in a $330 ($229 in 2008) decrease or increase in the Company's net earnings for the year ended December 27, 2009.

24. Employee future benefits

At December 27, 2009, the Company has seven defined contribution pension plans (nine in 2008) and four defined benefit pension plans (four in 2008).

The total expense is $9,012 ($9,326 in 2008) for defined contribution pension plans.

Total cash payments for employee future benefits for 2009, consisting of cash contributed by the Company to its defined benefit and defined contribution pension plans, are $13,109 ($12,218 in 2008).

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial valuations are performed on defined benefit plans for funding purposes every three years. One of the plans was valued as at December 31, 2007 and the others were valued as at December 31, 2008. The next actuarial valuations for funding purposes will be as at December 31, 2010 and December 31, 2011, respectively.

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

	2009	2008
Accrued benefit obligations		
Balance, beginning of year	**$ 32,327**	$ 40,736
Current service cost	**328**	499
Employee contributions	**225**	227
Interest cost	**2,427**	2,246
Benefits paid	**(2,573)**	(1,842)
Actuarial loss (gain)	**5,427**	(9,321)
Settlement	**(346)**	(218)
Balance, end of year	**$ 37,815**	$ 32,327
Plan assets		
Fair value, beginning of year	**$ 35,169**	$ 38,702
Actual return	**4,333**	(5,670)
Employer contributions	**4,097**	4,016
Employee contributions	**225**	227
Benefits paid	**(2,573)**	(1,842)
Settlement	**(572)**	(264)
Fair value, end of year	**$ 40,679**	$ 35,169
Funded status – surplus	**$ 2,864**	$ 2,842
Unamortized past service cost	**–**	8
Unamortized net actuarial loss	**10,206**	7,023
Unamortized transitional obligation	**–**	45
Valuation allowance	**(93)**	(29)
Accrued benefit asset	**$ 12,977**	$ 9,889
Accrued benefit asset included in other assets (Note 15)	**$ 12,977**	$ 9,896
Accrued benefit liability included in accounts payable and accrued liabilities	**$ –**	$ 7
Allocation of plan assets		
Equity securities	**59%**	52%
Debt securities	**41%**	48%
Total	**100%**	100%

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

	2009	2008
Current service cost	**$ 328**	$ 499
Interest cost	**2,427**	2,246
Actual return on plan assets	**(4,333)**	5,670
Actuarial loss (gain)	**5,427**	(9,321)
Elements of employee future benefit costs before adjustments to recognize the long-term nature of employee future benefit costs	**3,849**	(906)
Adjustments to recognize the long-term nature of employee future benefit costs:		
Difference between expected return and actual return on plan assets	**1,808**	(8,396)
Difference between actuarial loss recognized and actual actuarial (gain) loss on accrued benefit obligations	**(4,991)**	10,393
Loss on settlement	**226**	60
Amortization of past service costs	**8**	14
Amortization of transitional obligation	**45**	42
	945	1,207
Valuation allowance relating to the accrued benefit asset	**64**	(110)
Defined benefit pension costs recognized	**$ 1,009**	$ 1,097

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

	2009	2008
Accrued benefit obligations as at December 31:		
Discount rate	**6.25%**	7.5%
Rate of compensation increase	**3.6%**	3.5%
Benefit costs for the years ended December 31:		
Discount rate	**7.5%**	5.5%
Expected rate of return on plan assets	**7.0%**	7.0%
Rate of compensation increase	**3.5%**	3.4%

25. 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:

	2009	2008
Current assets	**$ 12,156**	$ 11,728
Long-term assets	**14,249**	14,496
Current liabilities	**6,269**	6,854
Long-term liabilities	**9,157**	8,795
Sales	**50,237**	56,423
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest	**2,768**	4,793
Net earnings	**909**	1,823
Cash flows from operating activities	**2,113**	(3,847)
Cash flows from investing activities	**(937)**	4,808
Cash flows from financing activities	**(570)**	703

The Company's sales include sales to joint ventures at fair value in the amount of $87,153 ($92,586 in 2008).

The Company's share in the commitments of these joint ventures amounts to $265 ($117 in 2008).

26. 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.

	2009	2008 (Restated)
Segment sales		
Corporate and franchised stores	**$ 3,540,227**	$ 3,741,748
Distribution	**2,318,172**	2,357,209
Total	**5,858,399**	6,098,957
Intersegment sales and royalties		
Corporate and franchised stores	**–**	–
Distribution	**(1,181,040)**	(1,207,835)
Total	**(1,181,040)**	(1,207,835)
Sales		
Corporate and franchised stores	**3,540,227**	3,741,748
Distribution	**1,137,132**	1,149,374
Total	**4,677,359**	4,891,122
Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest		
Corporate and franchised stores	**370,812**	403,119
Distribution	**101,587**	100,590
Total	**472,399**	503,709
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest		
Corporate and franchised stores	**252,840**	286,177
Distribution	**80,154**	78,552
Total	**332,994**	364,729
Acquisition of fixed assets and intangible assets		
Corporate and franchised stores	**107,714**	159,508
Distribution	**54,290**	41,832
Total	**162,004**	201,340
Goodwill		
Corporate and franchised stores	**1,266**	7
Distribution	**–**	–
Total	**1,266**	7
Total assets		
Corporate and franchised stores	**2,116,883**	2,105,008
Distribution	**633,000**	373,910
Total	**$ 2,749,883**	$ 2,478,918

27. Net earnings per share

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

	2009	2008 (Restated – note 2)
Net earnings	**$ 138,252**	$ 156,451
Number of shares (in thousands)		
Weighted average number of shares used to compute basic net earnings per share	**123,628.0**	115,643.6
Effect of dilutive stock options [(a)]	**1,073.2**	1,060.1
Weighted average number of shares used to compute diluted net earnings per share	**124,701.2**	116,703.7
Net earnings per share		
Basic	**$ 1.12**	$ 1.35
Diluted	**$ 1.11**	$ 1.34

(a) As at December 27, 2009, 575,777 common share stock options (1,166,952 options as at December 28, 2008) were excluded from the calculation of diluted net earnings per share since these options have an antidilutive effect.

THE BOARD OF DIRECTORS

1 **Jean Gaulin,** Chairman of the Board of RONA, Corporate Director

2 **Robert Dutton,** President and Chief Executive Officer of RONA

3 **Louise Caya,** Vice-President and Secretary of Thomas Caya (1982) inc. (hardware store) and Vice-President and Controller, Industrie Fabco Inc. (prefabricated kiosks and shelters)

4 **Doris Joan Daughney,** Corporate Director

5 **Richard Fortin,** Chairman of the Board of Alimentation Couche-Tard (convenience store operator), Lead Director on the Board of Directors of Transcontinental Inc. and Corporate Director

6 **Jean-Guy Hébert,** President of Maximat Inc. (holding company), of Horizon Devcow Inc. (real estate), Dealer, RONA L'entrepôt (Granby)

7 **J. Spencer Lanthier,** Corporate Director

8 **Alain Michel,** Chairman of the Board of Cari-All Group Inc. (manufacturer of shopping carts) and Corporate Director

9 **Robert Paré,** Corporate Lawyer and Partner at Fasken Martineau DuMoulin LLP (law firm) and Corporate Director

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

11 **Jocelyn Tremblay,** is an advisor to Vins Arista inc. (Groupe Lassonde) (wine merchant) and Vice-President, Corporate Affairs of Vins Philippe Dandurand inc. (wine agent) and Corporate Director

12 **Jean-Roch Vachon,** Corporate Director

THE BOARD OF DIRECTORS

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

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

Meetings of the Board are held at least quarterly and independent Directors meet regularly without management or non-independent Directors present.

COMMITTEES OF THE BOARD

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

THE AUDIT COMMITTEE

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

This includes the production of reliable financial information, the identification of the principal financial risks associated with the Company's activities, the implementation of appropriate systems to manage these risks, the internal control and management information systems of the Company, the Company's financial compliance with the various authorities and legislation, the competencies, independence and work of the external and internal auditors, the oversight of external and internal auditors.

Chair: J. Spencer Lanthier
Members: Richard Fortin, Alain Michel and Jean-Roch Vachon

THE HUMAN RESOURCES AND COMPENSATION COMMITTEE

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

Chair: James Pantelidis
Members: Doris Joan Daughney, Richard Fortin and Jocelyn Tremblay

THE NOMINATING AND GOVERNANCE COMMITTEE

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

Chair: Jean Gaulin
Members: Doris Joan Daughney, Alain Michel, Robert Paré and Jocelyn Tremblay

THE DEVELOPMENT COMMITTEE

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

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

MANAGEMENT TEAM

1 **Claude Bernier,** Executive Vice President Marketing and Customer Innovations

2 **Pierre Dandoy,** Executive Vice President Store Operations

3 **Daniel Ducharme,** Senior Vice President Information Technologies

4 **Normand Dumont,** Executive Vice President Merchandising

5 **Robert Dutton,** President and Chief Executive Officer

6 **Claude Guévin,** Executive Vice President and Chief Financial Officer

7 **Paul Jovian,** Senior Vice President Supply Chain

8 **Jean-Luc Meunier,** Senior Vice President Affiliate Dealer-Owner Network Development

9 **Christian Proulx**, Senior Vice President People and Culture

10 **Michèle Roy,** Vice President Communications and Public Affairs

11 **Marie-Claude Soucy,** Vice President Internal Audit and Continuous Improvement

12 **Michael Storfer,** Vice President Commercial and Professional Market

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Bank of Nova Scotia
Caisse Centrale Desjardins
National Bank of Canada
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Key Dates

Fiscal year-end: December 26, 2010

Quarterly earnings results release dates
First Quarter: May 12, 2010
Second Quarter: August 11, 2010
Third Quarter: November 10, 2010

Annual General Meeting:
April 27, 2010 at 11:00 a.m. (Eastern Time)
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