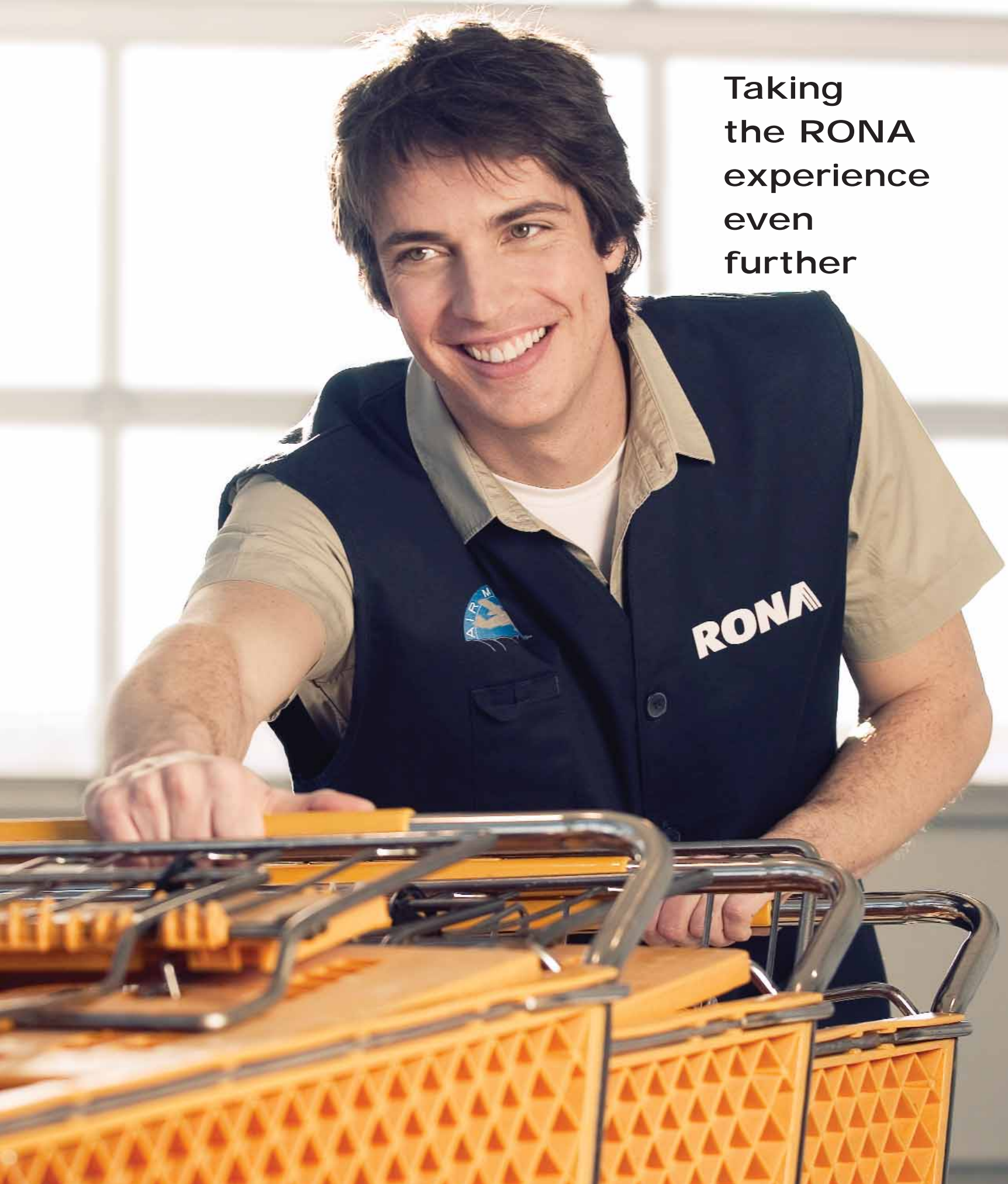


**Taking
the RONA
experience
even
further**



Our values

RONA adheres to a set of values that have driven the company's success since its inception. Day-in, day-out, these values guide our business decisions and operating methods.

Service

The RONA commitment to customer service is unconditional, for service is both the rationale for and instrument of our shared prosperity.

Unity

It is a founding principle at RONA: being part of one team and sharing one objective, which is to provide the most enjoyable store experience possible to each and every one of our customers.

Respect

A manner of behaving toward others that manifests itself on many levels: in the working conditions we provide for all our employees, in the resources we invest in people development and in the attentive way we listen to everyone—from employees to shareholders, customers and business partners.

Search for the common good

In the search for the common good, we partner with people and businesses that believe in the benefits of being part of a group and accept its rules, and our actions are guided by the collective interest of our employees, shareholders, suppliers and other partners.

Sense of responsibility

For RONA, responsibility means having the latitude to implement whatever actions are deemed necessary to aid the company's success. It also means encouraging initiatives and supporting projects within the organization so that all our people are able to grow apace with the company.



61

BRITISH COLUMBIA AND
THE PRAIRIE PROVINCES
(Alberta, Saskatchewan,
Manitoba)

Big-Box Stores	12
Renovation Centres	47
Hardware Stores	2

6 Distribution Centres

Surrey, British Columbia ⁽³⁾	85,000 sq. ft.
Calgary, Alberta ⁽¹⁾	320,000 sq. ft.
Halton Hills, Ontario ⁽²⁾	90,000 sq. ft.
Etobicoke, Ontario ⁽⁴⁾	130,000 sq. ft.
Dorval, Quebec ⁽²⁾	40,000 sq. ft.
Boucherville, Quebec ⁽¹⁾	650,000 sq. ft.

⁽¹⁾ Distribution of hardware products

⁽²⁾ Distribution of forest products and building materials

⁽³⁾ Distribution of forest products, building materials and hardware products

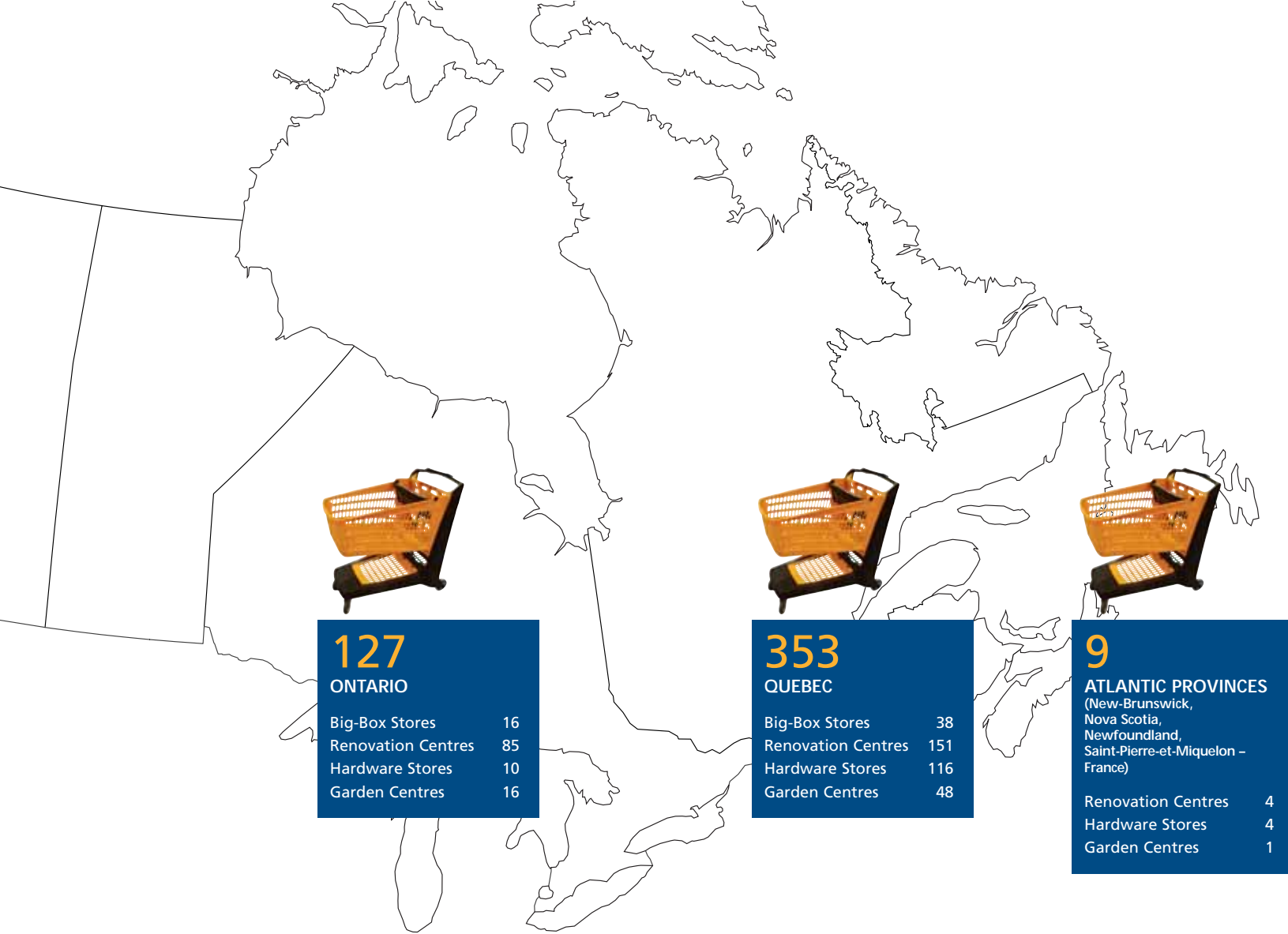
⁽⁴⁾ Delivery to both individuals and contractors

550 points of sale across nine provinces

66 Big-Box Stores

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





Approximately 85% of the population lives less than 30 minutes away from a RONA store

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of 550 franchised, affiliated and corporate stores of various sizes and formats. With over 21,000 employees working under its family of banners across Canada and more than 12.5 million square feet of retail space, the RONA store network generates approximately \$4.5 billion in annual retail sales.

from the Pacific to the Atlantic

300 Traditional Stores

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



184 Specialized Stores

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



At RONA, we remain committed to building a company on solid foundations. Once again in 2004, RONA established a presence in new markets, while strengthening its position in its existing ones. Supported by a proven strategy, expertise and knowledge unmatched in our market, we plan on taking the RONA experience even further.

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RONA is:

- more than **21,000 of our people** hard at work, driven by the commitment to satisfy the needs of all our customers—from do-it-yourselfers to home renovation professionals;
- a network of more than **550 stores** in different formats—from big-box to traditional and specialized;
- **14 retail banners** recognized across the country in the home hardware, renovation and gardening market;
- **12.5 million square feet** of retail space devoted to selling the greatest possible variety of products;
- **6 distribution centres** relying on the latest-generation technologies for inventory management and offering top-flight service to all our dealers.



RONA has never
been so close to so many people,
right across the country.



RONA enjoyed vigorous growth all across Canada in fiscal 2004. More important, our growth was driven by successes achieved in all of our chosen development areas:

- Robust organic growth, driven by the successes of our existing stores, as well as the additions to our store network;
- Three new big-box stores in 2004 in Edmonton, Kitchener and Regina;
- Three new traditional and specialized stores in Peterborough, Prince Albert and Calgary;
- Affiliate recruitment objectives exceeded, as part of the biggest recruitment campaign in our history, measured in retail sales dollars;
- 25 new affiliated stores recruited;
- Wise, carefully integrated acquisitions, as in the case of Réno-Dépôt;
- TOTEM Building Supplies Ltd. acquisition announced December 21, 2004.

SALES

(in millions of dollars)



INCREASE
35.8%



EBITDA

(in millions of dollars)

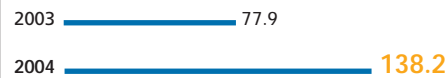


INCREASE
58.3%



NET EARNINGS

(in millions of dollars)



INCREASE
77.3%



DILUTED EARNINGS PER SHARE

(in dollars)



INCREASE
66.0%

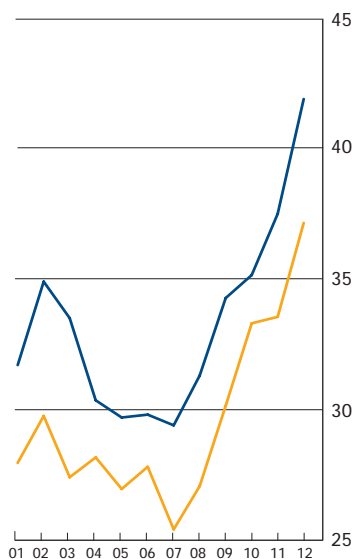


Consolidated Financial Highlights

Years ended December 26, 2004, December 28, 2003 and December 29, 2002
(in thousands of dollars, except for earnings per share)

STOCK INFORMATION YEAR 2004

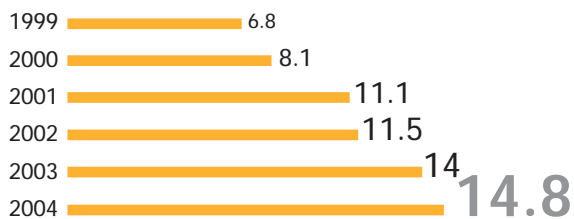
(Stock value: RON)



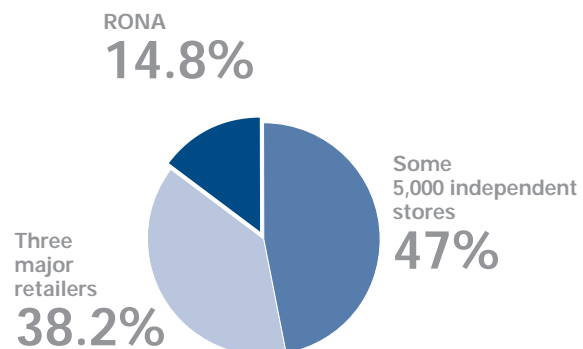
■ High
■ Low

	2004	2003	2002
Operations			
Sales	\$ 3,680,038	\$ 2,710,268	\$ 2,332,119
Operating income (EBITDA)	277,091	175,063	128,784
Net earnings	138,225	77,947	43,114
Earnings per share	\$ 2.43	\$ 1.47	\$ 1.12
Diluted earnings per share	\$ 2.39	\$ 1.44	\$ 1.08
Shareholders' equity	752,695	610,283	385,702
Common shares Outstanding	56,978,635	56,807,065	47,621,944

RONA'S MARKET SHARE IN CANADA (%)



CANADIAN HARDWARE-RENOVATION MARKET* (market share)



*RONA's retail sales totalled \$4.5 billion in 2004 in a total market estimated at \$30.5 billion.

Building on growth

By any performance indicator one chooses to apply, RONA's 21,000 employees set new standards once again this year. Sales, operating ratios and net earnings all reached record heights again—as did our indices of store customers' satisfaction.

Year after year, the quality of our financial results is increasingly evident. Yes, superior performance like this is the product of an enabling environment. But it is by choosing the right strategy and applying it with rigour, all the way down the line, that RONA is truly able to benefit from such favourable contexts.

- We are expanding our network in three ways: by building new corporate and franchised stores, via recruitment of new affiliates among Canada's thousands of independent retailers, and through acquisitions.
- Our success is founded on a consumer-focused approach, on our acknowledgment of our customers' diversity and on our acute awareness that we must work every day to win back their loyalty.

An enabling environment

RONA is a leader in a growing industry segment. Disregarding adjustments due to economic cycles, the hardware products and construction materials sector is driven by demand stimulated by the socio-demographic characteristics of North American society.

In fact, the current demographic profile of Canadians is without historical precedent. Twenty years ago, 19.1% of the country's population was aged 55 or older. By 2004, that proportion had reached 23.7%, and Statistics Canada predicts that it will stand at 27.5 % by 2011—which is just around the corner.

Behind the numbers, a portrait of a generation in transition gradually emerges. The baby-boomer population is beginning to experience life without dependent children. Their homes must now meet new and changing needs. Not only that, this generation is approaching retirement in a better financial situation than any that has come before it.

Today—and the situation will persist for several years yet—households arriving at this transitional stage are making changes to their homes to meet the requirements of their new lives, or else moving into new dwellings more suited to them and leaving their homes to younger buyers. In both cases, these changes are a prelude to a series of renovation projects.



Robert Dutton
President and Chief Executive Officer

Message from Management

The baby boomers are getting older, and so are the houses and apartments that were built for them to live in. An estimated 65% of Canadian homes today were built 20 years ago or more, while 83% are 10 or more years old. These homes all need maintenance.

In short, demand for hardware and construction products is bolstered by a mix of several essential factors. The robust health of the Canadian economy, continuing low interest rates and record numbers of housing starts—all these variables can only create greater stimulus in favour of the dominant trend.

Satisfying customers. One at a time.

But demographic and economic contexts, no matter how favourable, don't bring customers into our stores. We don't exist to serve statistics; we are there for the do-it-yourselfers, craftspeople and contractors. One at a time. Our challenge is to understand and satisfy the individual needs hidden behind the statistics and the trend curves.

That means starting afresh every day. Starting over with every customer.

That basic observation has been the cornerstone of RONA's growth. A decade ago, we resolved to become hardware and building materials consumer specialists, rather than specialists in a particular retail sales approach.

This is why our network includes several different types and sizes of stores: not all consumers live in the same place or have the same needs.

Indeed, our research and our experience with consumers have shown that a store is more than just a place to purchase products. The store in itself is a product, and people go there for the store's attributes. Hence the consumer appeal of having the choice among a range of stores—and hence also our desire to work constantly to perfect our store and layout concepts, taking a true research and development approach in doing so.

Just in the past two years, for example, we've launched a new building materials centre concept, designed primarily for contractors, craftspeople and serious do-it-yourselfers; a new "neighbourhood store" that gives RONA store customers in medium-sized and even smaller communities access to a choice of products more in keeping with the selection available to consumers in large metropolitan areas; and a rejuvenated version of the big-box store, made more user-friendly through the use of "boutique" shopping sections.

These novel concepts are also driving the renovation and refurbishing of the existing stores in our network, be they corporate, franchised or affiliated. We renovate our entire retail network premises according to a permanent five-year cycle.

A store experience is about much more than its layout. The service component of the retail trade is vital, and demands our unrelenting investment. Our AGP ("Acknowledge, Guide and Provide") training and recognition program, first set up in 2000

to implement best practices and improve in-store service, has been continually expanded and perfected in the years since.

We continue to give greater emphasis to employee training. We have set up training centres in Toronto and Montreal, and developed an online training program, dubbed IC4, that facilitates product training for in-store personnel.

In short, our strategy consists of putting trained, motivated personnel at the service of our customers, in stores designed to suit communities and needs that are specific and diverse.

Our customers are responding positively to these new offerings: the 9.0% growth recorded in same-store sales in 2004 speaks loudest on that score.

An expanded, denser network

If RONA's consumer offering is generating such success in all of our current markets, it goes without saying that it will benefit from extension to greater numbers of Canadian consumers. We are expanding our network in three ways: by building new corporate and franchised stores, via recruitment of new affiliates among Canada's thousands of independent retailers, and through acquisitions. Information on the current structure of our store network may be found on Page 22 of this report.

Construction of new stores is the number one method of serving expanding and changing markets: new, growing suburbs as well as urban neighbourhoods in transition are examples of markets that benefit from a new retail offering. In 2005 we plan to invest approximately \$150 million in construction of new corporate and franchised stores. Around 10 new stores are slated to open this year, followed by another 10 in 2006.

Recruiting of affiliate retailers is another efficient way of bringing the RONA offering to new markets. There are some 5,000 independent retailers in Canada, which continue to account for close to half of the home hardware and renovation industry segment. Many of these retailers are seeking tools to help them prosper in today's competitive environment; others are approaching retirement and have decided not to pass their business on to the next generation. In either case, RONA makes the perfect ally. Among all prospective candidates, we seek only the best—those who wish to become, or remain, the leaders in their respective markets.

Our 2004 recruitment objective was a retailer community representing a total of \$100 million in retail sales. We did better than that: \$105 million. Our recruitment objective for 2005 is \$150 million in total retail sales.

Expanding our network is about more than just boosting sales. Growing RONA's market presence helps leverage brand equity over the entire network, and this has a ripple effect on sales in established stores. And because we are augmenting the density of our network at the same time, our expansion is leading to efficiency gains in terms of logistics and distribution. This is among the factors that helped us improve our operating ratio once again in 2004.

Acquisitions: the fruit of a disciplined approach

Acquisitions are a third important vector of development. But they are more than that: for us, they are also a factor in change. Thanks in part to acquisitions, RONA has gone from being a Quebec leader to a Canadian leader in its field. With our acquisition of Cashway in 2000 and that of TOTEM, to be finalized toward the end of March 2005, we will have integrated more than 11,000 employees, over 150 stores and some \$2.2 billion in sales. Through rigorous selection of targeted companies, through a disciplined approach to their acquisition and eventual integration, and finally, through responsible application of best practices, RONA has not only become bigger through acquisitions—we've become better.

Within Canada, potential targets for acquisition remain: profitable, competently managed companies likely to contribute to our net earnings as soon as their integration is complete, and that themselves will reap the benefits of integration into the RONA family. Such acquisitions will become a reality if in-depth study validates their worth, and if the purchase price is right. If they do, we will proceed with the same discipline we have brought to previous transactions.


Building on growth: that of 21,000 people

All this means that there is no magic formula behind our success. It is founded on a consumer-focused approach, on our acknowledgment of our customers' diversity and on our acute awareness that we must work every day to win back their loyalty. In other words, it is founded on the skills and motivation of the 21,000 employees and managers who embody the RONA values. On behalf of the Board of Directors and ourselves, we thank them for their commitment to customer service and, by extension, to the success of RONA.

Lastly, on behalf of all shareholders, we thank our fellow members of the Board. That they are simultaneously demanding and supportive is a sign that their input is not only motivating, but also wise.



President and Chief Executive Officer
Robert Dutton



Chairman of the Board
André H. Gagnon



André H. Gagnon
Chairman of the Board

Increasing market presence from coast to coast and delivering a continually enhanced store experience: these goals together make up the essence of the strategy underpinning each of our actions. Throughout the year, the approximately 21,000 members of our organization work tirelessly to drive the RONA experience even further, according to two main development thrusts:

Network Development

To solidify its position as the leading Canadian retailer and distributor of hardware, renovation and gardening products, RONA deploys unceasing efforts aimed at expanding and improving our network of retail stores—from big-box stores to traditional and specialized stores. These efforts are implemented along three main development fronts: (1) store construction and renovation; (2) recruiting of affiliated retailers; and (3) acquisitions of companies.

Support for Development

Expanding our store network cannot generate the desired results without the contribution of our departments, whose mission is to ensure exemplary customer service, optimum operational efficiency, and firm brand awareness—an essential element for maintaining and even strengthening the company's solid foundations. That robustness stems from, among other things, the know-how and energy demonstrated by our Merchandising, Information and Technology, People and Culture, Distribution, Marketing and Finance departments.



From left to right:

Normand Dumont, Executive Vice-President, Merchandising, **Linda Michaud**, Senior Vice-President, Information and Technology, **Jean Émond**, Senior Vice-President, People and Culture, **Pierre Dandoy**, Executive Vice-President, Big-Box Stores, **Marc Dufresne**, Executive Vice-President, Distribution, **Michael Brossard**, Senior National Marketing Director, **Claude Guévin**, Executive Vice-President and Chief Financial Officer, **Claude Bernier**, Executive Vice-President, Traditional Stores.



As at February 23, 2005, RONA's network includes 300 Traditional and 184 Specialized Stores.

"All of our traditional and specialized stores delivered solid sales growth in 2004, thanks not only to the addition of new points of sale to our network, but also to improved performance among existing stores. Same-store sales were excellent. In terms of independent retailer recruitment alone, we surpassed our objective, and indeed set a record for total sales by points of sale recruited during the same fiscal year. The year 2005 is looking very promising indeed. Another highlight was the launch of our new neighbourhood store concept in Boucherville, Quebec, and Prince Albert, Saskatchewan. These new stores benefited from an immediate, enthusiastic consumer and dealer response."

Claude Bernier
Executive Vice-President
Traditional Stores

The new RONA Le Rénovateur neighbourhood store in Boucherville, Quebec.





Opening of the new RONA Home Centre neighbourhood store, September 16, 2004 in Prince Albert, Saskatchewan.

Network Development

Traditional and Specialized Stores

Highlights of the Year

- Opening of 3 new stores
- Renovations to 88 stores
- Recruitment of 25 affiliated points of sale
- Acquisition of 16 points of sale in Alberta

Store construction

Without a doubt, one of the key highlights of fiscal 2004 was the official launch of RONA's new neighbourhood concept under the banners RONA Le Rénovateur and RONA Home Centre. This store, averaging 40,000 square feet and including an exterior lumber yard, targets the construction and renovation market. It is designed both for the needs of average consumers as well as contractors and tradespeople. From the consumer point of view, it is an effective means of providing an enhanced, more contemporary shopping experience to residents in communities of 50,000 people or less. The first of these neighbourhood stores was completed in late 2003 (official opening: March 2004) in Boucherville, Quebec, and was followed in September 2004 by an outlet in Prince Albert, Saskatchewan. The

next two are set to open in Vernon, British Columbia, and Fort McMurray, Alberta. RONA plans to add other new neighbourhood stores to its retail network in the months to come, as well as propose an extension of the concept to franchised retailers.

Specialized Stores

Our specialized stores are also included in the network development program. Two new RONA Building Centre stores opened their doors in 2004. The RONA Building Centre in Peterborough, Ontario, replaced a former RONA Cashway outlet in June. The banner change proved effective, as the number of in-store transactions grew by more than 40%. The new RONA Building Centre in Calgary, officially opened in late January 2005, is home to one of the largest lumber yards in the area and has been designed to meet the specific needs of contractors.

Store renovations

All of the stores in the RONA network—corporate, affiliated and franchised—are subject to an improvement program designed to ensure that the consumer's shopping experience remains constantly in step with changing contemporary lifestyle trends. In 2004, renovation projects were dedicated to, among other things, the revamping of the kitchen and bathroom products section as well as the paints section

in all RONA Lansing stores. We continued our store offering upgrade program in RONA Cashway outlets. At the same time, selected stores in Western Canada underwent comprehensive renovations and integration of the "Boutiques" concept, including those in North Vancouver and the Austin area of Vancouver. In all, 88 traditional and specialized stores were renovated to some degree, including corporate as well as independent retailer stores in Canada.

Recruitment of affiliated retailers

The major affiliated retailer recruitment campaign begun in fall 2003 continues to bear fruit. Not only was the objective for combined retail sales of affiliated dealers recruited in fiscal 2004 exceeded, but the final amount set a record. The merchants recruited represented total annual sales of the order of \$105 million; the initial objective was \$100 million. The outlook for 2005 is promising, with 13 retailers recruited in January and February, representing additional annual sales in excess of \$35 million.

The recruitment campaign was built in part around the April 2004 opening of the new Calgary distribution centre, enabling key, direct service delivery to merchants and continuing to build on the

Acquisition of TOTEM Building Supplies Ltd.



As fiscal 2004 drew to a close, RONA announced it was acquiring the shares of a leading Alberta home improvement retailer TOTEM Building Supplies Ltd. The deal, subject to approval by the Competition Bureau (a decision is expected by spring 2005), will see 14 traditional and two contractor-dedicated stores added to the existing network. With this acquisition, RONA will nearly double its retail footprint in Canada's most demographically and economically dynamic province, which will act as a catalyst for the growth and density of our network and enhancements to operational efficiency throughout Western Canada.

Company's inroads in the Canadian West. During fiscal 2004, RONA gained 25 affiliated points of sale, including 13 in Western Canada, six in Ontario and six in Quebec. Our network now includes affiliated dealers in eight provinces—and geographically, it extends from Saint-Pierre-et-Miquelon (the French overseas department near Newfoundland) to Campbell River, on Vancouver Island in British Columbia.

**Highlights
of the Year**

- Opening of 3 new stores
- Renovations to 14 stores

As at February 23, 2005, RONA's network includes 66 Big-Box Stores in six provinces.



“During fiscal 2004, we were especially active in Western Canada and Ontario, opening three Big-Box Stores, among other initiatives. Interestingly, every time we have launched in a new market, we have rapidly become the number one choice of consumers looking to buy hardware, home renovation and gardening products. While continuing to expand our network’s reach westward, we have been pursuing our program of improvements to existing stores, making sure to instill an atmosphere conducive to the most pleasant store experience possible for our customers—one that lives up to their expectations.”

Pierre Dandoy
Executive Vice-President
Big-Box Stores

In April 2004, The Building Box stores were rebranded to the RONA Home & Garden banner.

(James Jones, Vice-President RONA Big-Box Stores, Ontario helps Scarborough RONA employees put the finishing touches to the store’s new RONA Home & Garden banner.)



RONA Home & Garden, Grandview in Vancouver, British Columbia.

Network Development Big-Box Stores

Store construction

February 2004 will see the launch of the RONA Home & Garden store in Edmonton, Alberta. RONA Home & Garden stores will also be launched in Kitchener, Ontario, in June, and Regina, Saskatchewan, in September. While continuing to increase its presence in Ontario and Western Canada, the company is also turning its attention to its original market: Quebec. In August 2004, it announced the start of construction of a RONA L'entrepôt store in the Hull region of Gatineau, Quebec. Operated as a franchise by the owner of the Gatineau RONA L'entrepôt and the Aylmer, Quebec, RONA Le Rénovateur, the new store (officially opened on February 9, 2005) will enable greater synergy and drive improved service for all categories of consumers in the Outaouais region.

Several more construction projects are on the calendar for 2005, in Richmond, British Columbia, and Langford (Vancouver Island), B.C., among others. Other projects may also see the light of day during fiscal 2005.

A next-generation big-box concept

Each time RONA builds a new store, we make sure it incorporates the best elements contributing to the success of our big-box philosophy. The latest additions to our RONA Home & Garden lines, the first in Saskatchewan and the second at the RONA L'entrepôt in Gatineau, Quebec, exemplify next-generation concepts in hardware and home improvement retailing. These big-box stores have been designed and laid out so as to offer consumers a singular shopping experience, in a more welcoming setting adapted to the latest home renovation and décor trends. Store personnel, supported by leading-edge technologies, also have access to a wide range of information to help them capably meet customers' requirements. Thus, consumers who come to these stores with a renovation project in mind feel more at home, and their projects become extremely exciting experiences.

Integration of Réno-Dépôt



Integration of the Réno-Dépôt stores acquired in September 2003 is now complete, with the administrative teams and those in the points of sale working in total symbiosis.

In Quebec, RONA L'entrepôt and Réno-Dépôt have remained separate banners. This combined presence enables the company to benefit from the two entities' respective strengths and brand equity. In Réno-Dépôt stores, we are continuing to emphasize the elements that have always drawn the interest and driven the loyalty of tradespeople and advanced do-it-yourselfers, while in RONA stores, our approach maintains more of a focus on seasonal, renovation and home décor products.

In Ontario, we have adopted a completely different approach. On April 12, 2004, the six The Building Box stores were rebranded, assuming the RONA Home & Garden banner, which allowed us to immediately strengthen RONA's market presence in key urban areas of the province: Cambridge, Scarborough, Brampton, Mississauga, London and Windsor.





RONA operates **six distribution centres**, creating a nationwide network able to serve stores in Eastern, Central and Western Canada.

"With the opening of our distribution centre in Calgary and the significant improvements made in recent years in terms of information technologies and our inventory and delivery management systems, RONA is well positioned to offer premier service in all of its stores, from coast to coast, regardless of size, market or sales volume. Our in-depth knowledge of the hardware and home improvement field, combined with solid management systems experience, has allowed us to constantly improve the strength and efficiency of our distribution network to ensure that each dealer is supplied at the best possible cost. And we're particularly proud of the results."

Marc Dufresne
Executive Vice-President
Distribution



Calgary distribution centre
Above:
Boucherville distribution centre



In 2004, RONA trucks traveled more than 11 million kilometres.

Highlights of the Year

- **Opening of the Calgary distribution centre**

Total surface of
320,000 sq. ft.

More than 24,000 pallet
locations

- **Integration of Réno-Dépôt stores into the RONA distribution network**

New Calgary distribution centre

In spring 2004, the new, technologically state-of-the-art distribution centre in Calgary officially opens its doors. RONA now has the top-flight facilities it needs to ensure that its Western Canada stores—extending from Northwestern Ontario to British Columbia—have all the tools necessary to offer the right product at the right time and at the right price. They have access to a wider product selection, and benefit from optimized inventory turnover—major assets to help improve performance.

The opening of the Calgary distribution centre is a key element in stepping up RONA's growth in the Western provinces. Its capacity is sufficient to serve the existing stores as well as those that will be built in the years to come. It is also a major incentive in the independent-dealer recruiting process. Lastly, it will maximize synergies in the case of eventual acquisitions. Integration of the TOTEM stores—the acquisition of which was announced at the end of fiscal 2004—will provide an opportunity to demonstrate this.

A Canada-wide distribution network

With the opening of the Calgary facilities, the RONA distribution network now boasts a state-of-the-art supply structure and management systems that will support the addition of any type of store—big-box, traditional or specialized; corporate, affiliated or franchised—anywhere in the country.

The efficiency of the systems and mechanisms in place now enables us to reach a 99.993% accuracy rate on inventory delivered to points of sale. Retailers can receive merchandise without any need to verify it, a significant time-saver. We are also ensuring continuous improvement of communi-

cations between retailers and our logistics and distribution teams: we have implemented mechanisms that allow dealers to pinpoint delivery truck arrival times, making their personnel management easier. When a truck arrives, the right resources are on site, ready to start unloading, which helps cut down on lost time.

The constant quest for the most cost-effective delivery method

When it comes to distribution, RONA's prime focus remains the ongoing quest to find the best solution to ensure that each of our retailers takes delivery of the products and materials they sell at the lowest possible cost. In other words, the stores' interests are our priority. Throughout fiscal 2004, we continued to perfect our approach, on the basis of top-quality management information and close ties with suppliers.

In every case, supplier merchandise deliveries are managed using our own systems—which include distribution cost-analysis software—so that we determine the most cost-effective method. In some cases, replenishment scenarios will involve the supplier delivering its merchandise directly, without going through the distribution centre. This solution is favoured, for example, in full-load cases, where a truck's entire contents are destined

for a single point of sale. Another strategy used is cross-docking. Pallets prepared by the supplier are received at the distribution centre and forwarded to their respective destinations without unpacking merchandise. A final option is storage, which truly allows us to fully utilize our distribution centres' receiving, sorting and shipping capacities, orchestrated according to retailers' needs.

Highlights of the Year

- Unification of the Purchasing and Merchandising teams
- New agreements reached with suppliers
- Through A.R.E.N.A., opening of three overseas offices dedicated to searching for suppliers
- Addition of 100 private-brand products to the existing line

In spring 2004, RONA merged its Purchasing and Merchandising departments into a single Merchandising department, leveraging synergies between the supply side and retail operations.



“For Merchandising, fiscal 2004 proved to be a year of challenges. The buoyancy of the construction and home renovation industries, combined with strong demand for certain product categories, meant that we had to consider pressure not only on prices but on availability of materials. Our wide-ranging knowledge of the market, ability to track consumer trends and needs and immense purchasing power with suppliers definitely were key factors in ensuring that every store had uninterrupted access to the product mix it needed to offer consumers a satisfying store experience.”

Normand Dumont
Executive Vice-President
Merchandising

In November 2004, RONA launched a brand-new line of power tools.



The new Paint Boutique Concept
RONA L'entrepôt Gatineau, Quebec (Hull).

Greater purchasing power

Following the acquisition of Réno-Dépôt, RONA has begun negotiations with its suppliers to review its supply contracts on the basis of new sales volumes. The company intends to take full advantage of this increased purchasing power to ensure that all dealers in its network continue to benefit from better product selection at the best possible cost.

Meanwhile, we continue to build on our partnerships with international leaders in our industry segment. During fiscal 2004, the decision to choose a single buying alliance, A.R.E.N.A. (an international buying group that includes companies active in 10 countries on four continents with total retail sales in excess of CDN \$30 billion), was an additional factor in generating new synergies.

Through A.R.E.N.A., RONA opened three Asian offices in 2004—in Ho Chi Minh City, Vietnam, as well as in Hong Kong and Shanghai, China—with a view to forging closer ties with suppliers of certain product categories based in this part of the world. Our Hong Kong office, for instance, is actively cultivating relationships with manufacturers of holiday decorations, a strong seasonal product category.

A constantly evolving product line

Throughout 2004, RONA continued to implement the Optimum Selection project. The objective: to optimize the product mix across our entire network. As a result of the many acquisitions made in the preceding fiscal years, the company now possesses several grouped databases cataloguing tens of thousands of different products. It now needs to analyse individual product categories, retaining only those that correspond to established criteria with respect to quality, price and consumer trends. The resulting product offering, truly focused on consumer needs and applied consistently network-wide, will help us realize significant savings in replenishment and inventory management.

RONA is simultaneously seeking to increase its offering of private-brand products. As at December 26, 2004, some 1,600 RONA brand products were on store shelves, an increase of nearly 7% over last year that resulted in part from the introduction of an initial line of power tools. In 2004, sales of private-brand and exclusive products represented fully 12% of total hardware products sales in our stores.

Introduction of merchandising standards

The more our network extends its reach across the country, the more important standardization of product presentation methods becomes. Regardless of the retailer, consumers must recognize the brand essence—the RONA experience—as soon as they set foot on the premises. With this in mind, in 2004 we worked to introduce new concepts and developed merchandising standards for the benefit of all stores in our network.



Highlights of the Year

- Full-year distribution for the first time of a single flyer serving all national banners
- 14 "Run to RONA" promo events held
- Air Miles® reward program expanded nationwide
- Second successful season for *Ma Maison RONA*; English equivalent *RONA Dream Home* premieres
- Participation in 19 RONA Bike Tours in seven provinces, benefiting the Multiple Sclerosis Society of Canada

RONA continues to implement leading-edge marketing strategies that truly emphasize its leadership role in the hardware and renovation industry.

A single national flyer

In 2004, for the first time, RONA distributed a single flyer throughout the entire year to all national banners (with the exception of Botanix and Réno-Dépôt, which have distinct marketing approaches). The English and French versions of the flyer are sent to some six million Canadian homes.

The flyer remains an extremely effective tool for promotional and brand equity leveraging purposes. Publishing a single nationwide flyer according to a standardized, simplified approach enables us to streamline our efforts while enhancing the impact of our actions.

The flyer also serves to promote the "Run to RONA" events, which have also been expanded to cover the entire country. On 14 occasions during the year, consumers all across Canada were invited to "run to RONA" and take advantage of attractive promotions and special in-store activities.

Expansion of the Air Miles® program

The national launch of the RONA Visa Community credit card in fiscal 2003 proved to be very popular with consumers looking for advantageous financing solutions. With the same objective of constantly seeking to provide consumers with tools and services that meet their changing needs, and in recognition of RONA's growing presence in Ontario and Western Canada in recent years, in September 2004 we began offering the Air Miles® reward program across our full network of stores in Canada. Until then, the program was available only to consumers in Quebec stores.



"The How-To-People."
RONA TV spot

"In 2004, our advertising and marketing program took on a truly national dimension. Through a balanced, diverse slate of activities, we have been able to leverage RONA's brand equity Canada-wide. Our campaigns exceeded expectations in Ontario, where we now enjoy 54% top-of-mind awareness (up 18% over last year). Awareness in the Western provinces is now 70% (8% higher than in 2003). These results speak to the effectiveness of our actions, and prove our ability to rapidly build consumer loyalty in markets where we had little or no presence until very recently."*

Michael Brossard
Senior National Marketing Director

*CROP survey, 2003 and 2004



Support for Development Marketing

Air Miles® is the most popular loyalty program of its kind in Canada, with a market penetration rate exceeding 70%. Availability of such a program through a hardware and home improvement retailer is a benefit that consumers rate very highly. Because renovation projects involve significant purchase amounts, our customers can accumulate reward miles quickly. It was not long before the impact of the program was felt: within weeks, we noted a significant increase in the average value of purchases made by Air Miles cardholder customers in Ontario and Western Canada.

“RONA—The How-To People.” Among the actions helping leverage brand equity is our advertising campaign, which casts RONA as THE preferred partner for consumers’ renovation projects. Anchored to the “RONA—The How-To People” and “Vous voulez. Vous pouvez.” slogans, our

English- and French-language campaigns convey the same message nationwide.

With the company’s decision to maintain the Réno-Dépôt banner in Quebec, this division retains a distinct advertising approach. Advertising deployed in 2004 continued to follow the “We’ve got it.” campaign theme, which has thus far generated excellent results.

Heavier Web site traffic

Our Web site, www.rona.ca, continued to grow in popularity. During 2004, traffic to the site passed the 500,000 visits-per-month plateau, well in excess of our objective of 350,000. By January 2005, the RONA Web site was logging 700,000 visits per month. The site design follows the spirit of the ad campaign. Emphasizing renovation projects and available solutions, it provides a true foretaste of the RONA store experience and allows consumers to find all the information they need to plan their purchases.



RÉNO DÉPÔT
We've got it.

Nationwide sponsorship program

In the area of sponsorship as well, RONA has adopted an approach fostering coast-to-coast presence. Our program has three main thrusts: maintaining a TV presence, helping develop amateur and professional sports, and contributing to efforts to improve our community.

The key component of our TV presence is the reality-renovation show, *Ma Maison RONA*, which enjoyed a second successful season on the TVA Network. Each of the new episodes was seen by over one million viewers. During 2004, the initial season of the English-language adaptation of the show, aired on Global TV, also met with success. *RONA Dream Home* managed to attract hundreds of thousands of viewers in a market with stiff competition from U.S. shows.

On the sports front, RONA maintained its partnership with the Canadian Football League and its teams all across Canada. The spinoff benefits of this long-term partnership are increasingly evident.

The key element of our sponsorship program is support for activities and groups whose goal is to improve quality of life for the most disadvantaged and vulnerable people in our society. Our actions in this area are diverse, and often oriented according to the needs of the moment. Examples include

assistance in the wake of natural and other disasters, contributions to hospital foundations, food drives and other campaigns to collect essential items, and financial support



Ma Maison RONA and RONA Dream Home winners' houses

to groups working with young people. The RONA Foundation also contributed generously to development of literacy and learning programs for young people through donations to dozens of organizations.

Lastly, fiscal 2004 marked the beginning of our first national-scale social partnership. Since February, RONA has been the major sponsor of the Multiple Sclerosis Society of Canada’s Bike Tours, held in seven different provinces in summer 2004.

**Highlights
of the Year**

- Recruitment of more than 700 people to fill positions created by expansion of the RONA network and more than 3,000 for full-time and seasonal needs



- AGP Gala rewards 111 employees for customer service excellence



- More than 6,700 employees of the RONA store network took part in 43,844 sessions in IC4 online training program

At December 26, 2004, more than 21,000 men and women worked at all RONA stores,—corporate, franchised, affiliated—its distribution and support centres.



Marilyn Nevin,
RONA Home & Garden
Vancouver, British Columbia

“With the opening of new stores, as well as the Calgary distribution centre, recruiting of independent dealers and acquisition of businesses, RONA’s recent growth has been fabulous. Our company is becoming an increasingly larger organization of people with diverse talents and horizons. Our response to this situation has been to spare no effort in promoting coherent action and commitment to the corporate culture. Our goal above all is to give each person the means to achieve his or her full potential and help move the company forward. When it comes to resource development, our top priorities are communication and ongoing training as well as implementation of personnel management best practices and a stimulating work environment. Through it all, the number one objective is top-quality customer service delivery from one end of the country to the other.”

Jean Émond
Senior Vice-President
People and Culture

positions available and the requirements. Held in February, the activity aims to fill a range of positions in all departments, including jobs in anticipation of the summer season, the busiest time of year for construction, home renovation and gardening projects.

Job Opportunity Day

For the second year in a row, RONA held a nationwide recruitment drive to fill some 2,500 positions available in corporate stores, including Quebec big-box outlets RONA L’entrepôt and RONA Le Régional, as well as RONA

Home & Garden in Ontario and Western Canada. During “Job Opportunity Day,” prospective employees were assured of meeting with the hiring managers in the stores in question, after familiarizing themselves with documentation that gives them a better picture of the company, the

Adoption of a master plan for training

Given our expanding store network, training is now a strategic issue. On the one hand, we must ensure that all members of the RONA family are capable of effectively using their talent and the means at their disposal to offer the customer service for which



DeFang Wang
RONA Home & Garden, Grandview in Vancouver,
British Columbia.

Support for Development People and Culture

we have always been famous. On the other, we have a responsibility to ensure that the next generation of employees has the means to acquire the knowledge and skills they need to push the RONA experience to ever greater heights. In 2004, RONA adopted a master training plan that defines a very specific orientation designed to ensure our employees receive supervision conducive to their professional development. Adoption of this master plan was followed by the setting up of a national-level team entrusted with the mission of managing all aspects of training.

In keeping with the master plan, the AGP program—Acknowledge customers, Guide them, and Provide solutions—remains a front-line tool for employee training and mobilization. The program, now in application network-wide, emphasizes such aspects as the essential behaviors of customer service truly focused on satisfaction: a warm welcome, listening and generosity. These are what enable employees to gain the trust and loyalty of customers. In addition to training and motivating, the AGP program measures performance, recognizes and rewards.

The AGP Awards Gala pays tribute to employees who show outstanding quality of service. In 2004, it was the turn of our Ontario and Western Canadian stores to choose their AGP award winners, 111 of whom, with their spouses and store management, took part in the November gala.

Another tool that lets employees perfect their knowledge and skills is the online training program dubbed IC4. The program is available in stores, and allows each employee to learn at his or her own pace by completing one or more modules. In 2004, more than 6,700 employees from across the country took part in 43,844 separate sessions.

Ongoing communication

To win the best support of all, RONA continues to build on communication as a way to ensure that everyone is familiar with and understands the corporate vision, what changes should be planned for, and what means must be put in place to make them a reality. Like our other business units, our Communications Department has grown to truly national stature over the past few years. In 2004, RONA also reviewed the values that contributed to its past successes, and introduced a company-wide awareness strategy aimed at rallying people from diverse backgrounds around shared values—especially people

who have joined the family more recently. Communications initiatives took on many forms, including distribution of an information kit, workshops, and team meetings.

A similar approach will drive a campaign to raise awareness of directives aimed at prevention and safety initiatives for both people and property, which will help create a secure environment conducive to the betterment not only of

the company but the people who work for it. Our recent acquisitions have made us aware of the diversity of industry practices, and we have taken the best of these and mapped out new directives from a perspective of efficiency and harmonization. Now, we are ready to implement them, and the Communications Department will play a vital role in that area.



To mark the 65th anniversary of its founding, RONA has given its employees centre stage. The RONA Star competition is an event that brings together more than 100 of our people, from all across Canada, and provides them with an opportunity to display their talents and another facet of their personalities. The 10 finalists delivered a much-appreciated performance at the President's Banquet, held as part of the *Spring Show*. The finalist are (left to right, rear): Yvon Blouin, Guylaine Fallu, Andréanne Veillet-Lévesque, Valérie Boivin, Nadia Plante, Wayne Krawchuk, Luc Boucher—(left to right, front) Leanne Osmond, Johnny Chaulk and John Saturno.

Highlights of the Year

- Integration of information systems of store chains acquired in recent years, among them Revy Home Centres and Réno-Dépôt
- Upgrading of warehouse management software to an application capable of supporting multiple distribution centres; establishment of the new Calgary distribution centre



- Continued implementation of RD2W data warehouse, which now integrates the full network of corporate and franchised stores, regardless of format
- Development of systems and infrastructures to support RONA VISA Community (Desjardins) credit card transactions
- Installation of a software package for managing all supplier agreements

The sole task of integrating the information systems—e.g., payroll, purchasing, inventory management—of The Building Box stores (converted to the RONA Home & Garden banner in April 2004) in Ontario resulted in 38 different projects.

Creation of a project management office

The national-scale expansion of the RONA network—whether through acquisitions, addition of affiliated dealers or construction of new stores—has signifi-

cant repercussions on workloads in information systems departments. There are more projects than before, the scale of those projects is more complex, and they are more markedly interdependent.

This has led us to create a project management office, whose principal mandate is to provide tools and a methodology to the various managers responsible for supervising all projects, and to ensure the right resources are in place to bring them to fruition, on time and on budget.

Deployment of system for managing the Air Miles® reward program in all stores nationwide.



Creation of a virtual community

In 2004, we undertook to set up a new approach to telecommunications. We will be increasingly reliant on Internet-based technology to enable stores to communicate more efficiently with the various head office departments, as well as with outside partners. We are therefore beginning to deploy the necessary systems and infrastructures to ensure that all stores have access to the latest in high-speed Internet connections, with a view to creating a true virtual community within the company.

"Fiscal 2004 provided the opportunity to demonstrate the capacity, efficiency and flexibility of the Information and Technology Department's support of corporate development. In the wake of our nationwide store network expansion, we conducted an in-depth study of the RONA business vision, of best practices in the technologies industry, and of outside factors (including consumer trends) that influence our business methods. This was the basis for our definition of the strategic plan that will guide each of our actions and identify the applications that RONA will require between now and 2007. We have begun developing the implementation plan, which will determine the order in which we will be phasing in these applications. To sum up, 2004 offered a wealth of projects of many different kinds for our department, and 2005 promises more of the same."

Linda Michaud
Senior Vice-President
Information and Technology

RONA inc. ("RONA", the "Company", "We") is Canada's leading retailer and distributor of home improvement, hardware and gardening products. As of February 23, 2005, the Company had 550 corporate, franchised and affiliated stores stretching from coast to coast.

RONA sales include:

- retail sales generated by its corporate stores;
- wholesale sales generated by affiliated stores belonging to owner-managers who display a RONA banner and benefit from RONA's distribution network and marketing programs;
- a share of retail sales generated by franchised stores in which RONA holds an interest and royalties on retail sales made by franchised stores.

Financial statements

RONA's financial statements were prepared in accordance with Canadian generally accepted accounting principles (GAAP) and are stated in Canadian dollars. The Company has filed its audited consolidated financial statements for fiscal year 2004 with the Canadian Securities Administrators. These statements can be viewed online at www.sedar.com or on RONA's Web site www.rona.ca. This management report should be read in conjunction with the Company's audited financial statements and related notes.

Stock split

On November 5, 2002, following our public offering, we restructured the Company's capital stock through a four-for-one split of its common shares. In this text, per-share amounts reflect this stock split but not the other aspects of the capital restructuring or new stock issue.

Major transaction

The analysis of the fiscal year must take into account the impact of the Réno-Dépôt acquisition in 2003 and a share issue made to finance the purchase.

Réno-Dépôt's financial statements were consolidated with RONA's after the acquisition was approved by the Competition Bureau on August 28, 2003. At the time of acquisition, Réno-Dépôt's annual sales were in the vicinity of \$850 million.

Réno-Dépôt was purchased for \$350 million, plus an adjustment of \$21 million reflecting changes in working capital, the portion of interest due on the purchase price between the announcement and close of the transaction, and transaction-related expenses. In addition, the Company benefited from the net cash flow drawn from Réno-Dépôt's operations between March 29 and August 28, 2003.

The transaction was partially financed by an issue of 8.9 million new shares, which raised \$149.7 million before issue-related costs. This issue was completed on May 21, 2003 or three months before Réno-Dépôt was consolidated into RONA's financial statements. During this period, the issue therefore had a dilutive effect on earnings per share. Management is of the opinion that had the share issue been completed on August 28, 2003, diluted earnings per share would have increased \$0.05 to \$1.49.

Highlights of the last three years

For the fiscal year ended December 26, 2004, RONA posted net earnings of \$138.2 million, up 77.3% over last year. Earnings per share advanced 65.3% to \$2.43 (\$2.39 diluted), compared with \$1.47 (\$1.44 diluted) in 2003.

Sales growth was achieved internally and through acquisitions. Réno-Dépôt's financial statements have been consolidated with RONA's since August 28, 2003.

Organic sales (excluding the impact of acquisitions) advanced 3.6% in 2003 and 14.1% in 2004, fuelled mainly by an increase in same-store sales, which gained 3.7% in 2003 and 9.0% in 2004 on the strength of our marketing programs. This growth was also achieved through network expansion, the construction of corporate and franchised stores, and recruitment of affiliated stores.

Operating profitability improved steadily from 2002 to 2004 as confirmed by our operating ratio (EBITDA/sales), which rose from 5.5% in 2002 to 6.5% in 2003 and to 7.5% in 2004. This performance reflects the acquisitions of the past few years and the ensuing synergies, as well as gains in operating efficiency resulting from better procurement conditions negotiated with suppliers, more efficient distribution logistics, better store performance and enhanced productivity thanks to our constantly updated technology platforms.

In 2002 and 2003, RONA significantly restructured its capital stock. Two major issues completed in November 2002 and May 2003 added some 19.9 million shares to the Company's capital stock, which has been trading publicly since November 2002.

RONA: Key Figures, Fiscal Years 2004, 2003, 2002

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

	Year Ended December 26, 2004	Year Ended December 28, 2003	Year Ended December 29, 2002
Sales	\$ 3,680.0	\$ 2,710.3	\$ 2,332.1
Net earnings	138.2	77.9	43.1
Earnings per share*	2.43	1.47	1.12
Diluted earnings per share*	2.39	1.44	1.08
Total assets	1,336.7	1,262.0	766.4
Long-term debt	137.3	163.9	99.3
Number of shares outstanding at year-end	56,978,635	56,807,065	47,621,944

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

* Figures per share reflect a four-for-one stock split in November 2002.

Comparative analysis of results, 2005-2004

The network

Number of Stores in 2005* and 2004**

	Big-box	Traditional	Specialized	
Corporate	RONA Le Régional RONA L'entrepôt RONA Home & Garden Réno-Dépôt	RONA Home Centre	RONA Building Centre RONA LANSING RONA CASHWAY	139 (133 in 2004)
Franchised	RONA Le Régional RONA L'entrepôt		RONA Building Centre RONA CASHWAY	24 (23 in 2004)
Affiliated		RONA Le Quincaillier RONA Le Rénovateur RONA L'express RONA Hardware RONA Home Centre	RONA L'express Matériaux RONA Building Centre BOTANIX	387 (372 in 2004)
	66 (63 in 2004)	300 (291 in 2004)	184 (174 in 2004)	550 (528 in 2004)

6 distribution centres

* February 23, 2005

** February 29, 2004

RONA
Nails
Another
Record
Year

Financial highlights

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

	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
Results of operations											
Sales	\$ 3,680,038	\$ 2,710,268	\$ 2,332,119	\$ 1,834,544	\$ 1,317,505	\$ 988,385	\$ 818,051	\$ 707,093	\$ 656,850	\$ 587,302	\$ 580,359
Percentage increase	35.8 %	16.2 %	27.1 %	39.2 %	33.3 %	20.8 %	15.7 %	7.6 %	11.8 %	1.2 %	21.5 %
Operating income (EBITDA)	277,091	175,063	128,784	90,528	60,088	37,175	30,570	25,734	20,212	16,204	15,268
Net earnings	138,225	77,947	43,114	24,633	18,013	14,706	13,511	11,063	9,130	6,932	6,895
Earnings per share	2.43	1.47	1.12	0.74	0.59	0.46	0.41	0.40	0.34	0.26	0.24
Diluted earnings per share	2.39	1.44	1.08	0.71	0.56	0.44	0.39	0.40	0.34	0.26	0.24
Common shares Outstanding	56,978,635	56,807,065	47,621,944	36,873,652	28,841,780	30,464,064	31,182,564	32,170,992	26,458,720	26,718,660	27,369,560
Cash flows from operating activities	107,252	114,135	83,257	68,038	33,051	(5,617)	30,615	10,240	15,258	11,502	4,691
Financial structure											
Total assets	1,336,745	1,262,022	766,434	744,076	450,973	287,916	253,575	165,692	142,291	130,588	97,543
Shareholders' equity	752,695	610,283	385,702	211,820	132,658	121,002	108,683	98,189	56,741	47,842	41,724
Long-term debt	137,330	163,925	99,337	283,788	104,514	36,242	34,877	4,639	26,259	9,833	10,423

On February 23, 2005, RONA had 550 stores, compared with 528 a year ago.

In terms of big-box stores, this past year we opened two RONA Home & Garden stores, one in Kitchener (Ontario) and another in Regina (Saskatchewan) as well as a RONA L'entrepôt in Gatineau (Quebec) on February 9. Six Réno-Dépôt stores in Ontario were converted from The Building Box to the RONA Home & Garden banner, and at the time of writing, a RONA Home & Garden was under construction in Richmond (British Columbia).

In 2004, we developed a new concept for an upgraded traditional hardware store. Measuring an average of 40,000 sq. ft. (3,716 sq. m.), this type of store operates under the RONA Le Rénovateur and RONA Home Centre banners and carries a vast selection of products adapted to smaller markets. This new concept was implemented in an affiliated store in Boucherville (Quebec) and a new corporate store in Prince Albert (Saskatchewan). As well, a RONA Home Centre in North Vancouver (British Columbia) was completely renovated according to this concept, and two new RONA Home Centre outlets will open their doors in early 2005 in Fort McMurray (Alberta) and Vernon (British Columbia).

During the year, we also launched two new specialized stores under the RONA Building Centre banner in Peterborough (Ontario) and Calgary (Alberta).

Slightly exceeding our 2004 objective, we recruited new affiliates with combined annual sales of \$105 million, making this our most successful recruitment campaign ever in terms of sales dollars. Located mostly in Western Canada but also in Ontario and Quebec, these stores will help densify our network in these regions.

On December 21, 2004, the Company announced the acquisition of TOTEM Building Supplies Ltd. ("TOTEM"), a home improvement leader in Alberta. Scheduled to be completed by the end of the first quarter of 2005, this acquisition, valued at some \$100 million, will give us 16 additional stores, bringing the total number of RONA stores in Alberta to 34 and doubling our market share in this province.

Our new distribution centre in Calgary is helping our expansion in the West. Built at a cost of \$30 million and put into operation in the second quarter of 2004, this 320,000 sq. ft. (29,728 sq. m.) centre supplies stores in the area between Western Ontario and the Pacific Coast. This centre represents an important facility for the support of the Company's development in Western Canada.

Results

Sales up 35.8%

RONA's consolidated sales include sales generated by its distribution centres and corporate stores, as well as the Company's share of franchised store sales and royalties from franchised sales.

Consolidated sales for fiscal year 2004 amounted to \$3,680.0 million, an increase of 35.8% over the \$2,710.3 million recorded in 2003. Excluding Réno-Dépôt's contribution, consolidated sales advanced 15.9%.

Distribution sales, including intersegment sales, consist mostly of sales to affiliated and franchised stores, along with sales from our distribution centres to corporate stores. Distribution sales rose 26.1% in 2004 on strong store performance, network expansion, the Réno-Dépôt acquisition and the opening of the Calgary distribution centre. Distribution sales, net of intersegment sales, advanced 15.4% to \$1,101.0 million during the year. Net of intersegment sales, retail sales for franchised and corporate stores combined increased 46.8% to \$2,579.0 million. In addition to the Réno-Dépôt acquisition, which was a major growth factor since its sales were only consolidated for four months in 2003, same-store sales improved 9.0% as a result of effective store concepts, a successful private label program, quality store staff training and strong marketing and loyalty programs such as Air Miles®.

RONA: Key Segment Figures

Fiscal Year Ended December 26, 2004

	Distribution		Corporate and Franchised Stores		Total	
	(\$ in millions)	Change in % Over 2003	(\$ in millions)	Change in % Over 2003	(\$ in millions)	Change in % Over 2003
Sales	1,922.8	26.1	2,589.0	46.6	4,511.8	37.1
Intersegment sales and royalties	(821.8)		(10.0)		(831.8)	
Net Sales	1,101.0	15.4	2,579.0	46.8	3,680.0	35.8
Operating income (EBITDA)	57.0	36.1	220.1	65.3	277.1	58.3

Operating income rises 58.3%

Operating income (EBITDA) advanced 58.3% over 2003 to \$277.1 million.

The operating ratio improved from 6.5% to 7.5%, reflecting enhanced operating efficiency, steadily growing purchasing and operating synergies arising from the Réno-Dépôt integration and an expanding retail presence where margins are higher than in the distribution sector. In fact, including intersegment sales, corporate and retail sales accounted for 57.4% of total sales, compared with 53.7% in 2003.

The operating ratio must be interpreted in light of a \$102.8 million sale and leaseback agreement signed in November 2004. Although it will have no impact on RONA's net earnings, this transaction will nevertheless increase operating expenses by the rent amount and reduce interest and depreciation by an equal amount. Although its impact is marginal on 2004 as a whole, it will be more pronounced as of 2005.

Operating income rose sharply both on the distribution and retail fronts.

Operating income from distribution activities rose 36.1% over last year to \$57.0 million in 2004, representing 5.2% of distribution net sales, compared with 4.4% in 2003. Acquisition synergies and constantly improving distribution efficiency are behind this increase.

Operating income from retail activities advanced 65.3% over last year to \$220.1 million, representing 8.5% of retail net sales against 7.6% in 2003. This gain is explained by the acquisition synergies, our successful marketing and private label programs, and a solid performance by the retail network.

Interest, depreciation and amortization

Interest expense for the year amounted to \$15.3 million, compared with \$17.5 million a year ago. Despite the Réno-Dépôt acquisition, operations and solid cash flow management allowed us to significantly reduce our debt load. This decrease also reflects loan repayments following a sale and leaseback transaction involving several big-box stores in Quebec and Ontario in the last quarter of 2004.

Depreciation and amortization increased 39.4% from 2003 to \$49.5 million due to the consolidation of Réno-Dépôt's financial statements for a full year rather than for four months of 2003 as well as capital investments made to develop the retail and distribution networks and update our information systems.

Taxes

Based on an effective tax rate of 34.9%, taxes for the year amounted to \$74.1 million. This compares with \$44.1 million last year based on an effective tax rate of 36.1%.

Cash flows and financial position

Operating cash flow rose 64.4% from \$109.1 million in 2003 to \$179.2 million in 2004. Net of the increase in working capital due to the growth and development of the retail and distribution networks, operations generated cash flows of \$107.3 million compared with \$114.1 million in 2003.

In 2004, we made \$71.2 million in capital investments to open and renovate stores and to build the Calgary distribution centre. And as we do every year, we invested a substantial amount to upgrade our information systems.

The disposal of assets resulted in a cash inflow of \$114.2 million. The sale and leaseback transaction concluded in November 2004 involving nine buildings housing big-box stores in Quebec and Ontario accounted for most of this amount (\$102.8 million).

This transaction, combined with strong cash flows from operations and solid cash flow management, allowed us to repay \$129.5 million of long-term loans.

RONA: Contractual Obligations by Term

(As at December 26, 2004)

Contractual Obligations	Payments by Term (\$ in thousands)				
	Total	Less than 1 year	1-2 years	3-4 years	5 years and more
Long-term debt	126,785	4,089	96,530*	10,044	16,122
Obligations under capital leases	11,456	5,095	5,781	521	59
Operating and other leases	934,321	82,476	144,748	123,702	583,395
Service contracts	25,200	7,500	17,700		
Other long-term obligations	11,285	2,629	3,656	2,000	3,000
Total	1,109,047	101,789	268,415	136,267	602,576

* Of this amount, \$89,678 is in the form of revolving credit. RONA management believes that this revolving credit will be renewed at the end of the term.

RONA: Outstanding Shares

(as at February 18, 2005)

Common shares	57,009,205
Unexercised options	1,712,900
Total	58,722,105

Our balance sheet continues to improve. On December 26, 2004, the total debt/capital ratio was 18.2%, compared with 32.0% at the end of fiscal year 2003, one year after the Réno-Dépôt acquisition.

The asset/equity ratio reached 56.3% at the end of 2004 in comparison with 48.4% on the same date in 2003.

In 2005, our capital program will be approximately \$185 million. These funds will be spent on, among other things, the construction of big-box, traditional and specialized stores.

The TOTEM acquisition will require an outlay of approximately \$100 million at the end of the first quarter of 2005.

Our working capital requirements are subject to considerable seasonal variations. Given the need to acquire sufficient stock for the spring and summer seasons, these requirements are generally strongest late in the first quarter. The Company has the necessary credit facilities to cover this aspect of its activities.

Our operations generate strong cash flows. Moreover, as at December 26, 2004, we had available unused credit facilities of nearly \$300 million. Management believes it has sufficient financial resources to continue its operations and execute its business plan.

Quarterly information**RONA: Consolidated Quarterly Financial Results**

(In millions of dollars, except earnings per share)

	2004				2003			
	T4	T3	T2	T1	T4	T3	T2	T1
Sales	\$ 932.7	\$ 1013.1	\$ 1077.1	\$ 657.1	\$ 790.8	\$ 748.3	\$ 703.7	\$ 467.5
EBITDA	61.0	82.8	101.1	32.3	48.0	50.6	55.2	21.3
Net earnings	29.8	43.5	53.7	11.2	21.0	24.1	27.0	5.8
Earnings per share	0.52	0.77	0.94	0.20	0.37	0.43	0.54	0.12
Diluted earnings per share	0.52	0.75	0.93	0.19	0.37	0.42	0.53	0.12

RONA: Annual and Quarterly Change in Distribution, Franchised and Corporate Store Sales, 2004

(Sales net of intersegment transactions and royalties)

Quarter	T1	T2	T3	T4	Year
Distribution sales	+ 2.2%	+ 15.7%	+ 14.4%	+ 29.2%	+ 15.4%
Franchised and corporate store sales (including Réno-Dépôt)	+ 72.3%	+ 76.7%	+ 46.1%	+ 13.7%	+ 46.8%
Franchised and corporate store sales (excluding Réno-Dépôt)	+ 9.8%	+ 14.6%	+ 18.3%	+ 19.4%	+ 16.0%

RONA: Annual and Quarterly Change in Same-Store Sales, Last 8 Quarters

Quarter	2004				2003			
	T4	T3	T2	T1	T4	T3	T2	T1
Change in same-store sales	+ 10.4%	+ 9.8%	+ 9.2%	+ 4.7%	+ 4.9%	+ 4.5%	+ 1.9%	+ 3.1%

RONA enjoyed healthy growth in the first few months of 2003 despite two unfavourable external factors: unusually bad weather, which affected the sale of seasonal goods, and a sharp drop in the price of lumber and construction materials that continued into the second quarter and also affected sales.

During the first quarter, we launched the biggest marketing campaign in the Company's history, our first national initiative aimed at consolidating RONA's leadership in Quebec and enhancing its visibility in the rest of Canada. During this same period, we converted all the Revy and Revelstoke stores acquired in summer 2001 in the West to the RONA banner.

Although same-store sales suffered from the harsh weather and material prices in the first two quarters of 2003, solid operating management and tight cost control allowed us to increase earnings per share by nearly 14% in the first half of 2003.

Organic growth picked up in the third quarter of 2003 while our national marketing campaign began to bear fruit. In addition, the Réno-Dépôt acquisition added 20 stores to our network in the Quebec-Windsor corridor, the most populated region in Canada. With annualized sales of some \$850 million, the Réno-Dépôt integration contributed to sales and earnings growth as the expected synergies quickly began to materialize.

Organic growth continued into the fourth quarter, where it reached 7.6% while same-store sales advanced 4.9%. Thanks to the synergies and general efficiency gains, net earnings rose sharply, with earnings per share climbing 55% in the second half of 2003 over the comparable year-ago period.

In fiscal year 2004, we focused on completing the Réno-Dépôt integration in order to realize the expected synergies; sustaining organic growth by developing new points of sale concepts and building corporate stores in Ontario, Alberta, Saskatchewan and British Columbia; and stepping up recruitment of affiliated merchants.

The independent merchants recruited in the first quarter of 2004 gradually began to have an effect on distribution sales. While they had little impact on the year's overall results, the sales and earnings generated in the first quarter were substantially higher than those recorded in the comparable year-earlier quarter.

In the second quarter, same-store corporate and franchise sales grew by nearly 10%, a pace maintained until the end of the year. As projected, the synergies derived from the Réno-Dépôt integration materialized and reached their cruising speed at \$35 million per year in the fourth quarter of 2004.

At the close of 2004, we announced the acquisition of TOTEM, which should be completed at the end of the first quarter of 2005.

Fourth quarter 2004

In the fourth quarter of 2004, RONA posted net earnings of \$29.8 million, up 41.0% over the same period last year. Diluted earnings per common share were \$0.52, compared with \$0.37 in the same quarter last year.

Sales rise 18.0%

RONA's consolidated sales for the quarter advanced 18.0% over 2003 to \$932.7 million. Organically generated, this growth was apparent in our distribution activities and corporate and franchised store sales.

Distribution sales in the last quarter, including intersegment sales, increased 29.7% over last year, reflecting the addition of affiliated stores, a solid performance by the corporate and franchised stores and greater use of our distribution infrastructure for replenishment following the opening of the Calgary distribution centre last April.

Net of intersegment activities, distribution sales amounted to \$279.8 million in the fourth quarter, an increase of 29.2% over last year. This growth reflects sales by affiliated and franchised stores as well as expansion by the affiliated store network. During the period, stores recruited during the year began integrating into our network and contributing to distribution sales. In fact, the entire affiliated store network benefited from a robust fourth quarter performance by both RONA and the industry as a whole.

Retail sales for corporate and franchised stores, net of intersegment sales, advanced 13.7% to \$652.9 million in the fourth quarter of 2004, fuelled entirely by organic growth across the country. Same-store sales moved ahead 10.4% over the corresponding year-ago quarter.

Operating income rises 27.1%

Operating income in the fourth quarter rose 27.1% over the year-earlier quarter to \$61.0 million, representing 6.5% of sales, against 6.1% in 2003. The operating ratio must be interpreted in light of the impact of the \$102.8 million sale and leaseback transaction concluded on November 2, 2004. Although it will have no impact on net earnings, this transaction will nevertheless increase operating expenses by the rent amount and reduce interest and depreciation by an equal amount.

The improvement in the operating ratio is significant, reflecting enhanced operating efficiency and RONA's growing retail presence where operating margins are higher than in the distribution sector.

Operating income from distribution activities climbed 38.8% over 2003 to \$12.4 million in the fourth quarter, representing 4.4% of distribution net sales, versus 4.1% a year ago. Margins improved as a result of better procurement conditions negotiated with suppliers and more efficient use of the distribution infrastructure.

Operating income for the corporate and franchised stores reached \$48.6 million, in the fourth quarter of 2004, up 24.5% from the corresponding year-ago period. The operating margin improved from 6.8% to 7.4% thanks to purchasing synergies, product category management, a successful private label program and operating efficiency.

Interest, depreciation and amortization

Interest expenses were \$2.6 million in the quarter, compared with \$7.0 million a year ago. Our debt level at the end of the year had decreased 41.5% from 2003.

Depreciation and amortization in the quarter ended December 26, 2004 amounted to \$13.0 million, compared with \$10.3 million in the same period last year. This increase reflects the opening of new corporate stores and the Calgary distribution centre in spring 2004.

Outlook

RONA's development has the benefit of certain structural advantages, notably a growing interest in home renovation and gardening, an aging pool of residential dwellings, a buoyant home resale market, and rising home prices.

Economic factors are equally positive. Because the Bank of Canada has tempered its optimism with regards to Canada's economic growth in 2005, it has maintained historically low overnight rates. Moreover, recent surveys show a rise in consumer confidence, which bodes well for our internal growth.

A still vibrant home renovation and construction market is creating a positive and robust economic environment for RONA.

Our various development strategies (internal growth, recruitment and acquisitions) have served us in good stead and we will therefore stay the course in this regard.

In September, we extended our Air Miles® program, in which the Quebec stores have been participating since its introduction in 1992, right across the country. Some 70% of Canadian households are enrolled in this program, making it the most popular of its kind in Canada.

According to research conducted on our behalf, RONA's visibility improved 7% in the West between June 2003 and June 2004. This improvement, combined with the increased operating capacity provided by the Calgary distribution centre, places us in a good position to step up our development in the West.

The private label program has also proven to be an excellent marketing tool, with private label products accounting for 12% of total sales in 2004 versus 10% a year ago. We added about 100 items to our private label line in 2004 and are planning another 200 this year.

The Réno-Dépôt integration is now complete and is generating the projected recurring operating synergies of \$35 million per year.

We should complete the TOTEM acquisition by the end of the first quarter of 2005 and immediately begin its integration using the model developed in 2000 and fine-tuned over the years.

And of course, it goes without saying that should the right opportunities arise, we are prepared to make more acquisitions.

Risks and uncertainties

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

Our industry is seasonal. First quarter sales are traditionally weaker because very little renovation is carried out in the winter. As well, bad weather can impact sales, particularly of seasonal products. Fluctuations in the price of lumber and other construction materials can also affect sales.

Of course, economic conditions are beyond our control. Economic growth, the unemployment rate, interest rates and business and consumer credit conditions are all factors with a potential impact on sales. In recent years, these factors have been favourable.

Beyond economic conditions, certain structural trends, – aging homes (65% of Canadian homes are more than 20 years old and 83% are more than 10 years old), an active resale market, growing interest in real estate investment, the aging population and the cocooning trend – all favour the development of our industry sector.

Net sales attributed to affiliated stores represented 20.1% of the sales generated by all our segments in 2004. If, despite our recruitment efforts, we were to lose a significant number of affiliated stores, sales would be adversely affected. However, over 93% of such stores are committed to remaining with the Company until at least November 5, 2012 and have signed an agreement granting RONA a right of first refusal should they wish to sell. Affiliated and franchised stores posted a buyer loyalty rate of more than 95% in 2004. The average affiliated store accounted for 0.07% of consolidated sales in 2004 and none represented more than 1.7%.

Acquisitions are an integral part of the RONA development strategy. Over the past five years the Company has completed the acquisition and integration of companies representing a total workforce of 10,000 employees, more than 130 stores and close to \$2 billion in sales. To date, every one of the Company's acquisitions has met with overwhelming success. There is no guarantee, however, that the Company will be capable of successfully integrating the operations of all companies which it may eventually acquire. The process of integrating an acquired company may not generate the expected synergies. RONA mitigates that risk through rigorous screening of companies for which it plans to submit offers, and by following a systematic, proven and time-tested integration protocol.

Changes in accounting policies

Since the publication of the 2003 Annual Report, the following changes have been made to the Company's accounting policies.

Impairment of long-lived assets

Effective at the beginning of fiscal year 2004, the Company adopted prospectively the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3063, *Impairment of long-lived assets*. This Section provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets, including property, plant and equipment and intangible assets with finite useful lives to be held and used. The Company reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of assets is less than their carrying amount, an impairment loss must be recognized. An impairment loss is measured as the amount by which the carrying amount of the assets exceeds their fair value. At December 26, 2004, no such impairment had occurred.

Revenue recognition

Effective at the beginning of fiscal year 2004, the Company adopted prospectively Abstract 141 (EIC-141), *Revenue recognition*, issued by the Emerging Issues Committee (EIC) of the CICA. In general, the objective of this abstract is to provide guidelines for the application of Section 3400, *Revenue*, of the CICA Handbook. Specifically, EIC-141 presents the criteria to be met for revenue to be recognized. The application of the new guidelines did not result in any material impact on the financial statements of the Company for the fiscal year ended December 26, 2004.

New accounting standards effective in 2005

Variable interest entities

The CICA has published an accounting guideline on the reporting of variable interest entities (VIEs), legal entities that are not controlled by shareholders with voting rights. This guideline provides guidance for determining when an enterprise includes the assets, liabilities and results of activities of such an entity in its consolidated financial statements and applies to annual and interim periods beginning on or after November 1, 2004. Following a review of this guideline, the Company concluded that the impact of the application of this guideline would not be significant on its financial statements.

Significant accounting estimates

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

Inventory

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

Volume rebates

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

Goodwill

Goodwill is the excess of the acquisition cost of an enterprise over its book value at the time of acquisition. Goodwill is revised downward if the fair value of an operating unit is less than its book value. This fair value is estimated annually and no loss in value was recorded in 2004.

Non-GAAP performance measure

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

While EBITDA does not have a meaning standardized by generally accepted accounting principles in Canada (GAAP), it is widely used in our industry and financial circles to measure the profitability of operations, excluding tax considerations and the cost and use of capital. Given that it is not standardized, EBITDA may not be comparable from one company to the next. Still, we establish it in the same way for the segments identified, and, unless expressly mentioned, our method does not change over time.

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

Forward looking information

This management report contains forward looking statements reflecting RONA's objectives, estimates, and expectations. These statements are identified by the use of verbs such as "believe," "anticipate," "estimate" and "expect" as well as the use of the future or conditional tense. By their very nature, these types of statements involve risk and uncertainty. Consequently, results could differ materially from the Company's projections or expectations.

Additional information

This management report was prepared on February 23, 2005. The reader will find additional information concerning RONA, including the Company's Annual Information Form, on the Company's Web site at www.rona.ca or on SEDAR at www.sedar.com.

Executive Vice-President and Chief Financial Officer,



Claude Guévin CA

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. These consolidated financial statements have been prepared in accordance with Canadian generally accepted accounting principles and have been approved by the Board of Directors.

RONA inc. maintains internal accounting and control systems which, in management's opinion, reasonably ensure the accuracy of financial information and efficient and effective command of the Company's business activities.

Chairman of the Board,



André H. Gagnon

The Board of Directors relies largely on its Audit Committee in assuming liability for the consolidated financial statements included in this report. The committee, which holds quarterly meetings with members of management and external auditors, has reviewed the financial statements of RONA inc. and recommended their approval to the Board of Directors.

The attached consolidated financial statements have been audited by the firm Grant Thornton S.E.N.C.R.L.

Executive Vice-President and Chief Financial Officer,



Claude Guévin CA

Auditors' Report to the shareholders of RONA inc.

We have audited the consolidated balance sheets of RONA inc. as at December 26, 2004 and December 28, 2003 and the consolidated statements of earnings, retained earnings and contributed surplus and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 26, 2004 and December 28, 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants

Montreal, February 14, 2005

Consolidated Earnings

Years ended December 26, 2004 and December 28, 2003
(in thousands of dollars, except earnings per share)

	2004	2003
Sales	\$3,680,038	\$2,710,268
Earnings before the following items	277,091	175,063
Interest on long-term debt	12,122	14,244
Interest on bank loans	3,129	3,249
Depreciation and amortization (Notes 10 and 11)	49,521	35,530
	64,772	53,023
Earnings before income taxes	212,319	122,040
Income taxes (Note 4)	74,094	44,093
Net earnings	\$ 138,225	\$ 77,947
Earnings per share (Note 22)	\$ 2.43	\$ 1.47
Diluted earnings per share (Note 22)	\$ 2.39	\$ 1.44

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

Consolidated Retained Earnings Consolidated Contributed Surplus

Years ended December 26, 2004 and December 28, 2003
(in thousands of dollars)

	2004	2003
Consolidated Retained Earnings		
Balance, beginning of year	\$ 205,448	\$ 133,843
Net earnings	138,225	77,947
	343,673	211,790
Expenses relating to the issue of common shares net of income taxes of \$2,935		6,342
Balance, end of year	\$ 343,673	\$ 205,448
Consolidated Contributed Surplus		
Balance, beginning of year	\$ 1,453	\$ 1,192
Compensation cost relating to stock-based compensation plans	1,377	
Gain on disposal of the Company's common shares by a company subject to significant influence, a joint venture and a subsidiary, net of income taxes of \$27 (\$81 in 2003)	115	261
Balance, end of year	\$ 2,945	\$ 1,453

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

Consolidated Cash Flows

Years ended December 26, 2004 and December 28, 2003
(in thousands of dollars)

	2004	2003
Operating activities		
Net earnings	\$ 138,225	\$ 77,947
Non-cash items		
Depreciation and amortization	49,521	35,530
Future income taxes	(8,489)	(4,442)
Net loss (gain) on disposal of assets	(2,024)	393
Other items	2,003	(378)
	179,236	109,050
Changes in working capital items (Note 5)	(71,984)	5,085
Cash flows from operating activities	107,252	114,135
Investing activities		
Business acquisitions (Note 6)	(6,524)	(331,850)
Advances to joint ventures and other advances	(913)	2,419
Other investments	(1,912)	(2,780)
Fixed assets	(71,228)	(72,341)
Other assets	(11,947)	(12,003)
Disposal of assets	114,153	15,643
Cash flows from investing activities	21,629	(400,912)
Financing activities		
Bank loans and revolving credit	4,825	50,064
Other long-term debt	659	117,203
Repayment of other long-term debt and redemption of preferred shares	(129,537)	(29,433)
Issue of common shares	2,734	152,715
Expenses relating to the issue of common shares		(7,278)
Cash flows from financing activities	(121,319)	283,271
Net increase (decrease) in cash	7,562	(3,506)
Cash (outstanding cheques), beginning of year	(3,031)	475
Cash (outstanding cheques), end of year	\$ 4,531	\$ (3,031)
Supplementary information		
Interest paid	\$ 13,401	\$ 15,626
Income taxes paid	\$ 89,257	\$ 40,304

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

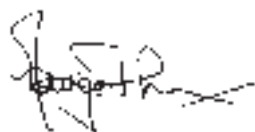
Consolidated Balance Sheets

December 26, 2004 and December 28, 2003
(in thousands of dollars)


	2004	2003
Assets		
Current assets		
Cash	\$ 4,531	\$
Accounts receivable (Note 7)	158,261	139,070
Inventory	623,322	528,680
Prepaid expenses	9,874	7,787
Future income taxes (Note 4)	11,027	9,636
	<hr/> 807,015	685,173
Investments (Note 8)	22,012	25,124
Fixed assets (Note 10)	303,137	360,036
Goodwill	162,900	160,449
Other assets (Note 11)	17,885	13,636
Future income taxes (Note 4)	23,796	17,604
	<hr/> \$1,336,745	<hr/> \$1,262,022
Liabilities		
Current liabilities		
Outstanding cheques	\$	\$ 3,031
Bank loans (Note 12)	19,299	19,945
Accounts payable and accrued liabilities	373,536	327,914
Income taxes payable	11,263	18,451
Future income taxes (Note 4)	377	426
Instalments on long-term debt (Note 13)	11,261	102,997
	<hr/> 415,736	472,764
Long-term debt (Note 13)	137,330	163,925
Other long-term liabilities (Note 14)	16,790	2,154
Future income taxes (Note 4)	8,836	8,259
Non-controlling interest	5,358	4,637
	<hr/> 584,050	651,739
Shareholders' equity		
Capital stock (Note 15)	406,077	403,382
Retained earnings	343,673	205,448
Contributed surplus	2,945	1,453
	<hr/> 752,695	610,283
	<hr/> \$1,336,745	<hr/> \$1,262,022

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

On behalf of the Board,



Monique Leroux
Director



André H. Gagnon
Director

Notes to Consolidated Financial Statements

December 26, 2004 and December 28, 2003
(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

Impairment of long-lived assets

Effective at the beginning of fiscal year 2004, the Company adopted prospectively the Canadian Institute of Chartered Accountants (CICA) Handbook Section 3063, *Impairment of long-lived assets*. This Section provides guidance on the recognition, measurement and disclosure of the impairment of long-lived assets, including property, plant and equipment and intangible assets with finite useful lives to be held and used. The Company reviews long-lived assets for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the undiscounted future cash flows expected to result from the use and eventual disposition of assets is less than their carrying amount, an impairment loss must be recognized. An impairment loss is measured as the amount by which the carrying amount of the assets exceeds their fair value. At December 26, 2004, no such impairment had occurred.

Revenue recognition

Effective at the beginning of fiscal year 2004, the Company adopted prospectively Abstract 141 (EIC-141), *Revenue recognition*, issued by the Emerging Issues Committee (EIC) of the CICA. In general, the objective of this abstract is to provide guidelines for the application of Section 3400, *Revenue*, of the CICA Handbook. Specifically, EIC-141 presents the criteria to be met for revenue to be recognized. The application of the new guidelines did not result in any material impact on the financial statements of the Company for the fiscal year ended December 26, 2004.

Guarantees

In February 2003, the CICA released a new Accounting Guideline (AcG-14), *Disclosure of Guarantees*, which supplements previous disclosure requirements and requires disclosure in consolidated financial statements of interim and annual periods beginning on or after January 1, 2003 of obligations under guarantees regardless of the likelihood of the events occurring (Note 16).

3. Accounting policies

Accounting estimates

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

Principles of consolidation

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

Revenue recognition

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

Inventory valuation

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

Fixed assets

Fixed assets are depreciated over their estimated useful lives using the following methods and annual rates:

	Methods	Rates
Parking lots	Straight-line	8% and 12.5%
Buildings	Straight-line	4%
Leasehold improvements	Straight-line	5% to 33%
Furniture and equipment	Diminishing balance and straight-line	10% and 20%
Computer hardware and software	Straight-line	10% to 33%

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. It 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

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

Financing costs are amortized on a straight-line basis over the financing term, over periods ranging from one to three years.

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

Income taxes

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

3. Accounting policies (continued)

Other long-term liabilities

Other long-term liabilities represent a deferred gain arising on the sale of real estate under the terms of sale and leaseback agreements and amounts received relating to advertising contracts. Other long-term liabilities are amortized using the straight-line method over the terms of the leases or the duration of the contracts.

Stock-based compensation plans

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

Foreign currency translation

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

Derivative financial instruments

The Company has entered into interest rate swaps which are not used as hedges for accounting purposes. Consequently, they are recognized at fair value and the resulting gains or losses are recorded in earnings. The swap agreements expired in November 2004.

Employee benefit plans

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

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

- The actuarial determination of the accrued benefit obligations for pension uses the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees;
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- Past service costs from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendments;
- Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligation. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the fair value of plan assets is amortized over the average remaining service period of the active employees. The average remaining service period of the active employees covered by the pension plan is 20 years;

- The transitional obligation is amortized on a straight-line basis over a period of 15 years, which was the average remaining service period of employees expected to receive benefits under the benefit plan.

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

Earnings per share and information pertaining to number of shares

Earnings per share are calculated by dividing net earnings available for common shareholders by the weighted average number of common shares outstanding during the year. Diluted earnings per share are calculated taking into account the dilution that would occur if the securities or other agreements for the issuance of common shares were exercised or converted into common shares at the later of the beginning of the period or the issuance date. The share redemption method is used to determine the dilutive effect of the stock options. This method assumes that proceeds of the stock options during the year which are in-the-money 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 26, 2004 and December 28, 2003 include 52 weeks of operations.

4. Income taxes

	2004	2003
Current	\$82,583	\$48,535
Future	(8,489)	(4,442)
	<u>\$74,094</u>	<u>\$44,093</u>

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

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

	2004	2003
Federal statutory income tax rate	22.1%	24.1%
Statutory rate of various provinces	10.5	10.4
Combined statutory income tax rate	<u>32.6</u>	<u>34.5</u>
Non-deductible dividends, net of impact of non-taxable dividends	(0.2)	0.2
Non-deductible costs	0.6	0.5
Other	1.9	0.9
Effective income tax rate	<u>34.9%</u>	<u>36.1%</u>

4. Income taxes (continued)

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

	2004	2003
Future income tax assets		
Current		
Pension plans	\$ 963	\$ 1,056
Deferred non-capital losses	4,226	4,464
Direct costs related to business acquisitions	790	2,587
Non-deductible costs	2,693	566
Other	2,355	963
	<u>\$ 11,027</u>	<u>\$ 9,636</u>
Long-term		
Financing costs	\$ 660	\$ 810
Deferred non-capital losses	5,453	4,483
Share issue expenses	3,022	4,244
Fixed assets and pre-opening expenses	5,783	4,035
Deferred gain on sale and leaseback transaction	5,014	
Goodwill	2,002	1,996
Deferred revenue	321	479
Other	1,541	1,557
	<u>\$ 23,796</u>	<u>\$ 17,604</u>
Future income tax liabilities		
Current		
Other	\$ 377	\$ 426
	<u>\$ 377</u>	<u>\$ 426</u>
Long-term		
Fixed assets, pre-opening expenses and big-box store development expenses	\$ 6,373	\$ 5,749
Goodwill	2,308	2,212
Other	155	298
	<u>\$ 8,836</u>	<u>\$ 8,259</u>

5. Cash flow information

The changes in working capital items are detailed as follows:

	2004	2003
Accounts receivable	\$ (5,932)	\$ 5,652
Inventory	(97,551)	(23,329)
Prepaid expenses	(2,704)	1,125
Accounts payable and accrued liabilities	40,876	15,933
Income taxes payable	(6,673)	5,704
	<u>\$(71,984)</u>	<u>\$ 5,085</u>

6. Business acquisitions

On December 20, 2004, the Company acquired all the outstanding shares of TOTEM Building Supplies Ltd. (TOTEM), a privately held company operating 16 stores and a distribution centre in Alberta. The transaction is subject to approval from the Competition Bureau and TOTEM's results of operations will be consolidated from the date of the approval. The purchase price is approximately \$100,000, payable in cash.

In addition, during the year, the Company acquired several companies, operating in the corporate and franchised stores segment, by way of share or asset purchases for a cash consideration of \$6,524. The assets acquired, which mainly included accounts receivable, inventory and fixed assets, the liabilities assumed, which mainly included accounts payable, and goodwill amounted to \$12,849, \$8,776 and \$2,451 respectively. The results of operations of these companies are consolidated from their date of acquisition.

On August 28, 2003, the Company received approval from the Competition Bureau with respect to the acquisition, on March 29, 2003, of all of the outstanding shares of Réno-Dépôt Inc., a company operating in one of RONA inc.'s business segments, i.e. corporate and franchised stores. The results of operations for that company have been consolidated since the date of the approval from the Competition Bureau.

Taking acquisition costs into account, this acquisition was for a total cash consideration of \$371,415 from which net cash of \$42,600, arising from the operations of Réno-Dépôt from March 29, 2003 to August 28, 2003 and accruing to the Company's benefit, should be deducted. The acquisition was financed through the issuance of 8,935,500 new shares at a price of \$16.75 per share, for a total amount of \$149,670. In addition, new credit facilities were implemented for a maximum authorized amount of \$567,000, comprised of a three-year revolving credit of \$450,000 and a term loan of \$117,000.

The allocation of the purchase price was established as follows:

Current assets	\$193,820
Fixed assets	111,538
Goodwill, net of the related tax impact of \$7,000	140,980
Future income taxes	5,127
Current liabilities	(77,801)
Deferred revenue	(2,249)
	<u>371,415</u>
Less: Accrued acquisition costs, net of the related tax impact	(727)
Cash of acquired company	(42,600)
Cash consideration paid on September 10, 2003	<u>\$328,088</u>

The Competition Bureau has, however, required that the Company undertake the necessary steps to dispose of one Réno-Dépôt store located in Quebec. Management has therefore established a plan of disposal in this regard.

6. Business acquisitions (continued)

During the last quarter of 2003, the Company acquired 51% of the common shares of François L'Espérance Inc., a company operating a chain of stores in Quebec, for a cash consideration of \$3,762.

The assets acquired, which mainly included accounts receivable and inventory, and the liabilities assumed, which mainly included accounts payable, totalled \$17,000 and \$9,624 respectively. The results of operations are consolidated from the date of acquisition.

7. Accounts receivable

	2004	2003
Trade accounts		
Affiliated and franchised stores	\$ 60,324	\$ 54,239
Joint ventures	21,693	15,206
Companies subject to significant influence		1,657
Other (retail customers)	68,613	63,096
Advances to joint ventures, prime plus 3%	953	363
Other accounts receivable	5,420	3,296
Portion of investments receivable within one year	1,258	1,213
	\$158,261	\$139,070

8. Investments

	2004	2003
Joint ventures, at cost		
Preferred shares, dividend rate varying from 6% to 8.5%	\$ 7,250	\$ 7,728
Mortgages, weighted average rate of 9.0% (8.8% in 2003), maturing on various dates until 2015	2,882	4,675
Advances, prime plus 3%, without repayment terms	735	1,002
Companies subject to significant influence		
Shares, at equity value	1,340	3,075
Mortgages, at cost, rate of 9.5% in 2003		1,137
Preferred shares, at cost, redeemable over ten years, maturing in 2011	560	640
Advances and loans, at cost		
Mortgages and term notes, weighted average rate of 7.5% (7.8% in 2003), maturing at various dates until 2016	9,608	7,818
Loans to managers for acquisition of shares, without interest, maturing in 2007	71	99
Other	824	163
	23,270	26,337
Portion receivable within one year	1,258	1,213
	\$ 22,012	\$ 25,124

The consolidated statements of earnings include dividend income of \$403 (\$477 in 2003) and interest income of \$1,990 (\$1,971 in 2003).

9. Interests in joint ventures

Interests in joint ventures are difficult to compare 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:

	2004	2003
Current assets	\$ 26,883	\$ 23,763
Long-term assets	18,977	19,302
Current liabilities	20,587	19,083
Long-term liabilities	14,668	15,189
Sales	106,184	101,535
Net earnings	3,012	1,742
Cash flows from operating activities	7,844	4,038
Cash flows from investing activities	(2,257)	(1,253)
Cash flows from financing activities	(4,131)	(1,606)

10. Fixed assets

	2004			2003		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Land and parking lots	\$ 49,259	\$ 4,254	\$ 45,005	\$ 81,059	\$ 5,826	\$ 75,233
Buildings	111,706	20,713	90,993	144,368	29,407	114,961
Leasehold improvements	49,202	23,532	25,670	33,759	14,171	19,588
Furniture and equipment	141,357	68,645	72,712	119,496	56,953	62,543
Computer hardware and software	86,821	55,859	30,962	71,185	42,326	28,859
Projects in process ^(a)	5,111		5,111	37,882		37,882
Land for future development	7,740		7,740	15,344		15,344
Assets under capital leases ^(b)						
Furniture and equipment	673	297	376	920	454	466
Computer hardware and software	16,133	5,334	10,799	10,017	4,857	5,160
	468,002	178,634	289,368	514,030	153,994	360,036
Fixed assets held for sale ^(c)	16,246	2,477	13,769			
	\$484,248	\$181,111	\$303,137	\$514,030	\$153,994	\$360,036

On November 2, 2004, the Company concluded a sale and leaseback transaction with H & R Real Estate Investment Trust involving land and buildings for an amount of \$102,800. A pre-tax gain of \$15,494 has been deferred and is being amortized over the terms of the leases (Note 14).

Depreciation of fixed assets amounts to \$41,768 (\$29,024 in 2003).

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

^(b) During the year, the Company acquired \$7,099 (\$5,895 in 2003) of computer hardware and software by way of capital leases.

^(c) The Company approved a plan of sale in the form of a leaseback transaction for the land and the building housing the Regina store in Saskatchewan. Furthermore, the Company approved the sale of the land and the building housing Réno-Dépôt Inc.'s administrative centre in Montreal. The Company expects to complete these transactions during the next fiscal year.

11. Other assets

	2004	2003
At unamortized cost		
Pre-opening expenses	\$ 9,695	\$ 3,878
Financing costs ^(a)	4,987	9,286
Costs related to sale and leaseback agreements	3,144	395
Other	59	77
	\$ 17,885	\$ 13,636

^(a) Financing costs relate to credit facilities (Note 12).

The amortization of other assets amounts to \$7,753 (\$ 6,506 in 2003).

12. Credit facilities

a) Parent company and some subsidiaries

On September 10, 2003, the Company signed a new credit agreement for a total amount of \$567,000. The credit is comprised of a \$450,000 revolving credit, that could be used to issue letters of guarantee and credit letters for imports, maturing in September 2006

and a \$117,000 term loan. The term loan was fully repaid during the year. As at December 26, 2004, the letters of guarantee and the credit letters for imports issued amount to \$26,127.

Interest rates can vary based on the type of loan and the financial ratios achieved by the Company and are fixed every quarter. As at December 26, 2004, the interest rates vary from 3.8% to 4.5% (4.0% to 4.7% in 2003).

The credit facilities are secured by the universality of the assets of the Company and those of certain subsidiaries. These credit facilities have certain restrictions which the Company and certain subsidiaries must respect. The Company and certain subsidiaries are prohibited, among others, from assigning their assets and restricted regarding investments, additional debt, the payment of dividends and guarantees.

The Company is required to meet certain financial ratios. As at December 26, 2004, the Company is in compliance with these requirements.

Moreover, in 2003, the Company has set up an unsecured credit facility for imports in the amount of \$15,000. The terms and conditions to be respected are the same as those of the \$567,000 credit agreement. As at December 26, 2004, the amount used is \$7,614.

12. Credit facilities (continued)

b) Other subsidiaries and joint ventures

Bank loans are secured by an assignment of certain assets. The Company's share of these assets amounts to \$75,778 (\$52,754 in 2003). These bank loans bear interest at rates varying from prime rate to prime rate plus 1% and are renewable annually. As at December 26, 2004, the interest rates vary from 4.25% to 5.25% (4.5% to 5.5% in 2003).

13. Long-term debt

	2004	2003
Revolving credit, average rate of 4.0% (average rate of 4.2% in 2003) (Note 12)	\$ 89,678	\$ 84,930
Term loan, average rate of 4.3% in 2003 (Note 12)		117,000
Mortgage loans, secured by assets having a depreciated cost of \$58,672 (\$65,653 in 2003), rates varying from prime plus 0.75% to 8.65% (5% to 8.65% in 2003), maturing at various dates until 2017	37,107	45,990
Obligations under capital leases, rates varying from 4.84% to 9.05% (5.32% to 9.05% in 2003), maturing at various dates until 2010	10,521	6,630
Balance of purchase price, prime rate, payable in four instalments ending in 2007	1,562	
Shares issued and fully paid		
965,805 Class A preferred shares, Series 5, in 2003; at the time of issuance, the Company agreed to redeem them over a period of five years ^(a)		966
1,723 Class C preferred shares, Series 1 (2,406 shares in 2003); at the time of issuance, the Company agreed to redeem them over a period of five years ^(b)	1,723	2,406
8,000,000 Class D preferred shares (9,000,000 shares in 2003) ^(c)	8,000	9,000
	148,591	266,922
Instalments due within one year	11,261	102,997
	\$137,330	\$163,925

^(a) During the year, the Company redeemed 965,805 shares (1,249,618 shares in 2003) for a cash consideration of \$966 (\$1,250 in 2003).

^(b) During the year, the Company redeemed 683 shares (688 shares in 2003) for a cash consideration of \$683 (\$688 in 2003).

^(c) During the year, the Company redeemed 1,000,000 shares (1,000,000 shares in 2003) for a cash consideration of \$1,000 (\$1,000 in 2003). These shares are redeemable over a period of ten years.

Dividends affecting earnings amount to \$438 (\$550 in 2003).

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

	Obligations under capital leases	Other long-term loans and shares
2005	\$ 5,095	\$ 6,718
2006	3,558	94,996 ^(a)
2007	2,223	5,190
2008	266	5,224
2009	255	6,820
2010 and subsequent years	59	19,122
Total minimum lease payments	11,456	
Financial expenses included in minimum lease payments	935	
	\$10,521	

^(a) In the opinion of management, the revolving credit will be renewed at maturity.

14. Other long-term liabilities

	2004	2003
Deferred gain on sale and leaseback transaction	\$15,227	\$
Deferred revenue	1,563	2,154
	\$16,790	\$ 2,154

15. 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 by the Company at their issuance price (Note 13)

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 by the Company at their par value of \$1,000 each (Note 13)

Class D preferred shares, 4% cumulative dividend, redeemable by the Company 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 13)

Issued and fully paid:

The following table presents changes in the number of outstanding common shares and their aggregate stated value from December 29, 2002 to December 26, 2004.

	December, 26 2004		December, 28 2003	
	Number of shares	Amount	Number of shares	Amount
Balance, beginning of year	56,807,065	\$401,878	47,621,944	\$249,714
Issuance in exchange for common share subscription deposits	70,627	2,096	98,151	1,343
Issuance under stock-based compensation plans	92,000	638	140,000	972
Issuance in exchange for cash	8,943	315	8,946,970	149,849
Balance before elimination of reciprocal shareholdings	56,978,635	404,927	56,807,065	401,878
Elimination of reciprocal shareholdings	(85,488)	(618)	(82,572)	(453)
Balance, end of year	56,893,147	404,309	56,724,493	401,425
Deposits on common share subscriptions, net of eliminations of subsidiaries and joint ventures ^(a)		1,768		1,957
		\$406,077		\$403,382

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

Stock-based compensation plan of May 1, 2002

The Company adopted a stock option purchase plan for designated senior executives which was approved by the shareholders on May 1, 2002. A total of 1,460,000 options were granted at that date. Options granted under the plan may be exercised since the Company made a public share offering on November 5, 2002. The Company can grant options for a maximum of 1,870,000 common shares. As at December 26, 2004, the 1,460,000 options granted have an exercise price of \$6.94. Of this number, 232,000 options were exercised to date.

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 \$6.94, an expected volatility of 30%, a risk-free interest rate of 4.92%, an expected life of four years and a 0% expected dividend. The fair value of options granted is \$2.19 per option according to this method.

No compensation cost was expensed with respect to this plan for the period ended December 26, 2004.

15. Capital stock (continued)

Stock-based compensation plan of October 24, 2002

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

On December 22, 2004, 241,000 options (274,100 options granted on December 16, 2003) were granted at an exercise price of \$40.53 per share (\$28.57 in 2003).

The fair value of each option granted was estimated at the grant date using the Black-Scholes option-pricing model. The fair value and assumptions used are as follows:

	2004	2003
Fair value per option	\$14.09	\$10.27
Risk-free interest rate	3.88%	4.06%
Expected time until complete exercise of options	6 years	6 years
Expected volatility in stock price	27%	28%
Expected annual dividend	0%	0%

Compensation cost expensed with respect to this plan was \$1,377 (\$49 in 2003).

A summary of the situation as at December 26, 2004 and December 28, 2003 of the Company's stock option plans and the changes that occurred during the periods then ended is presented below:

	2004		2003	
	Options	Weighted average exercise price	Options	Weighted average exercise price
Balance, beginning of year	1,594,100	\$10.66	1,460,000	\$ 6.94
Granted	241,000	40.53	274,100	28.57
Exercised	(92,000)	6.94	(140,000)	6.94
Balance, end of year	1,743,100	14.99	1,594,100	10.66
Options exercisable, end of year	1,296,525	8.08	1,320,000	6.94

The following table summarizes information relating to stock options outstanding at December 26, 2004:

Exercise price	Expiration date	Options outstanding	Options exercisable
\$ 6.94	December 31, 2012	1,228,000	1,228,000
\$28.57	December 16, 2013	274,100	68,525
\$40.53	December 22, 2014	241,000	
		1,743,100	1,296,525

16. Guarantees

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

The Company guarantees bank loans and mortgages for certain customers to an amount of \$11,402. The terms of these loans extend until 2014 and the net carrying amount of the assets held as security, which mainly include land and buildings, is \$21,171.

Pursuant to the terms of inventory repurchase agreements, the Company is committed towards financial institutions to buy back the inventory of certain customers at a cost ranging from 50% to 90% of the cost of the inventories to a maximum of \$35,450. 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.

17. Financial instruments

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

- The fair value of cash, accounts receivable, outstanding cheques, bank loans and accounts payable and accrued liabilities is comparable to their carrying amounts, given the short maturity periods;
- The fair value of advances and loans, substantially all of which have been granted to dealer-owners, has not been determined because such transactions have been conducted to maintain or to develop favourable trade relationships and do not necessarily reflect terms and conditions which would have been negotiated with arm's length parties. Moreover, the Company holds sureties on certain investments which provide it with potential recourse regarding the operations of the dealer-owners in question;
- The fair value of long-term debt, except for preferred shares, is determined on the discounted value of future contractual cash flows using interest rates representing those which the Company could currently use for loans with similar conditions and maturity dates. The fair value of long-term debt approximates the carrying amount;
- The fair value of class A preferred shares, Series 5, class C preferred shares, Series 1, and class D preferred shares, presented in the long-term debt, approximates their redemption value.

18. Employee future benefits

As at December 26, 2004, the Company has seven defined contribution pension plans and five defined benefit pension plans.

Following the harmonization of the Company's pension plans, two of the defined contribution plans were terminated at the beginning of 2003. Moreover, on January 1, 2003, two defined benefit pension plans were converted into defined contribution pension plans. The Company will continue to assume the accrued benefit obligations at the time of plan conversion, which did not result in a gain or loss for the Company.

The total expense is \$4,610 (\$4,233 in 2003) for defined contribution pension plans.

The Company measures its accrued benefit obligations and the fair value of plan assets for accounting purposes as at December 31 of each year. Actuarial valuations are performed on defined benefit plans every three years. One of the plans will be valued as at December 31, 2004, two other plans will be valued as at December 31, 2005 and the remaining plans will be valued as at December 31, 2006.

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

	2004	2003
Accrued benefit obligation		
Balance, beginning of year	\$30,791	\$28,044
Current service cost	648	612
Interest cost	1,739	1,633
Benefits paid	(920)	(976)
Actuarial loss	718	1,478
Balance, end of year	<u>32,976</u>	<u>30,791</u>
Plan assets		
Fair value, beginning of year	24,658	23,762
Actual return	923	653
Employer contributions	1,901	1,198
Employee contributions	19	21
Benefits paid	(920)	(976)
Fair value, end of year	<u>\$26,581</u>	<u>\$24,658</u>

Total cash payments for employee future benefits for 2004, consisting of cash contributed by the Company to its funded pension plans and cash contributed to its defined contribution plans, was \$6,511 (\$5,431 in 2003).

	2004	2003
Allocation of plan assets		
Equity securities	51%	50%
Debt securities	49	50
Total	<u>100%</u>	<u>100%</u>

	2004	2003
Funded status - deficit	\$ 6,395	\$ 6,133
Unamortized cost of past services	(64)	(78)
Unamortized net actuarial loss	(3,404)	(2,197)
Unamortized transitional obligation	(213)	(255)
Accrued benefit liability	<u>\$ 2,714</u>	<u>\$ 3,603</u>

The accrued benefit liability is presented in accounts payable and accrued liabilities.

18. Employee future benefits (continued)

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

	2004	2003
Current service cost	\$ 629	\$ 591
Interest cost	1,739	1,633
Actual return on plan assets	(923)	(653)
Actuarial losses	718	1,478
Elements of employee future benefits costs before adjustments to recognize the long-term nature of employee future benefits costs	2,163	3,049
Adjustments to recognize the long-term nature of employee future benefits costs:		
Difference between expected return and actual return on plan assets	(584)	(761)
Difference between actuarial loss recognized and actual actuarial loss on accrued benefit obligation	(623)	(1,363)
Difference between amortization of past service costs and actual plan amendments	14	14
Amortization of transitional obligation	42	42
Net pension costs recognized	\$ 1,012	\$ 981

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

	2004	2003
Discount rate	6.0 to 6.25%	6.0 to 6.5%
Expected long-term rate of return on plan assets	7.0	7.0
Rate of compensation increase	3.0 to 5.5	3.0 to 5.5

19. Commitments

The Company has entered into lease agreements expiring until 2014 which call for lease payments of \$60,588 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 2023 for corporate store space for minimum lease payments of \$708,658.

As part of the development 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 \$165,075 for the rental of premises and land on which the Company erected a building. In consideration thereof, the Company has signed subleasing agreements totalling \$159,571.

The minimum lease payments (minimum amounts receivable) under lease agreements for the next five years are \$82,476 (\$11,756) in 2005, \$76,313 (\$11,839) in 2006, \$68,435 (\$11,874) in 2007, \$62,958 (\$11,833) in 2008 and \$60,744 (\$11,518) in 2009.

On December 28, 2003, the Company entered into an advertising agreement to pay \$30,000 over a four-year period from January 1, 2004 to December 31, 2007. At December 26, 2004, the balance due on this agreement is \$25,200.

20. Contingencies

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

Management does not expect that the outcome of these claims and litigation will have a material and adverse effect on the Company's results and did not deem it necessary to account for an allowance in this regard.

21. 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 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 and income taxes, i.e. sales less chargeable expenses. The Company accounts for intersegment operations at fair value.

21. Segmented information (continued)

	2004			2003		
	Distribution	Corporate and franchised stores	Total	Distribution	Corporate and franchised stores	Total
Segment sales	\$1,922,795	\$2,589,028	\$4,511,823	\$1,525,315	\$1,766,262	\$3,291,577
Intersegment sales and royalties	(821,786)	(9,999)	(831,785)	(571,589)	(9,720)	(581,309)
Sales	1,101,009	2,579,029	3,680,038	953,726	1,756,542	2,710,268
Earnings before interest, depreciation and amortization, rent and income taxes	73,420	288,010	361,430	53,971	180,177	234,148
Earnings before interest, depreciation and amortization and income taxes	56,988	220,103	277,091	41,871	133,192	175,063
Total assets	285,297	1,051,448	1,336,745	230,887	1,031,135	1,262,022
Acquisition of fixed assets	16,064	55,567	71,631	29,871	42,470	72,341
Goodwill		2,451	2,451		140,980	140,980

22. Earnings per share

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

	2004			2003		
	Earnings	Weighted average number of shares (in thousands)	EPS	Earnings	Weighted average number of shares (in thousands)	EPS
Earnings per share:						
Net earnings	\$ 138,225	56,800.9	\$ 2.43	\$ 77,947	53,114.7	\$ 1.47
Diluted earnings per share:						
Effect of dilutive securities						
Impact of exercising stock options ^(a)		1,026.5			849.7	
Net earnings available for common shareholders	\$ 138,225	57,827.4	\$ 2.39	\$ 77,947	53,964.4	\$ 1.44

^(a) As at December 26, 2004, 241,000 common share stock options (274,100 in 2003) were excluded from the calculation of diluted earnings per share since the unrecognized future compensation cost of these options has an antidilutive effect.

Mandate of the Board of Directors

The Board of Directors is responsible for the supervision of the management of the Company's business and affairs, with the objective of maximizing long-term value. The Board approves all matters expressly required by its mandate, under the *Companies Act* (Quebec) and other applicable legislation and the Company's articles and by-laws. When authorized by the Company's applicable legislation, the Board may assign to Board committees the prior review of any issues it is responsible for. Board committee recommendations are subject to Board approval. The Board has delegated the approval of certain matters to management pursuant to its schedule of authority, as amended from time to time. In spite of the fact that directors may be elected by the shareholders to bring a special expertise or point of view to Board deliberations, they are not chosen to represent a particular constituency. All decisions of each member of the Board must be made in the best interest of the Company.

More specifically, the responsibilities of the Board of Directors with respect to planning strategies, human resources and performance assessments and matters of corporate governance include (i) adopting a strategic planning process and approving, at least once a year, a strategic plan which takes into account, among other matters, the opportunities and risks of its business, (ii) choosing the President and Chief Executive Officer and approving the appointment of other senior management executives, (iii) monitoring and assessing the performance of the President and Chief Executive Officer and other senior management executives, (iv) conducting the annual performance assessment of the Board, the Board Committees, the Chairman of the Board, the Committee Chairs and each director, (v) approving the compensation of executive officers (particularly the President and Chief Executive Officer), and the compensation policy for the other employees of the Company, (vi) satisfying itself, to the extent feasible, that the President and Chief Executive Officer and the other executive officers exhibit integrity and create a culture of integrity throughout the Company, (vii) ensuring the competent and ethical operation of the Company by management, (viii) monitoring the succession planning process for executive officers and the Board of Directors, (ix) reviewing the size and composition of the Board and its committees based on the competencies, skills and personal qualities of each member of the Board of Directors, (x) approving the list of Board nominees for election by the shareholders of the Company, (xi) developing the Company's approach with respect to governance, including the development of corporate principles and guidelines which apply to the Company specifically, and (xii) adopting and reviewing the code of conduct of the Company on a regular basis.

Moreover, the responsibilities of the Board of Directors with respect to financial matters and internal control include (i) monitoring the reliability and quality of the Company's financial statements and the appropriateness of their disclosure, (ii) reviewing the general content of any document required by regulatory authorities in Canada to be prepared or disclosed by the Company as well as the Audit Committee's report on the financial aspects of any of such documents, (iii) approving operating and capital budgets, the issue of securities and, subject to the Company's schedule of authority, any material transaction not in the ordinary course of business, including proposals for mergers, acquisitions or other major investments or divestitures, (iv) determining the Company's dividend policies and procedures, (v) identifying the Company's principal business risks and implementing appropriate processes to manage such risks, (vi) monitoring the Company's internal control and management information systems, (vii) monitoring the Company's compliance with applicable legal and regulatory requirements, and (viii) reviewing, at least annually, the Company's communications policy and monitoring the Company's communications with analysts, investors and the public.

Finally, the responsibilities of the Board of Directors concerning matters relating to pension plans include (i) overseeing the governance structure, funding, and investment policies for the Company's pension plans, and (ii) overseeing the investment management of the pension funds.

Committees of the Board of Directors

The Board of Directors has four committees: the Human Resources and Compensation Committee, the Nominating and Corporate Governance Committee, the Audit Committee and the Development Committee. The mandates of the committees of the Board of Directors are as follows:

The Human Resources and Compensation Committee is responsible for assisting the Board of Directors in discharging its responsibilities regarding hiring, evaluation, compensation and succession planning for the Company's executive officers and other key employees.

The Nominating and Corporate Governance Committee is responsible for assisting the Board of Directors in the development of the Company's approach to matters of corporate governance, selection of nominees for election as directors and their compensation and for assessing the effectiveness of the Board of Directors and its committees, their respective chairs and each director.

The Audit Committee is responsible for assisting the Board of Directors in its oversight of (i) the production of reliable financial information, (ii) the identification of the principal risks associated with the Company's activities and the implementation of appropriate systems to manage these risks, (iii) the internal control and management information systems of the Company, (iv) the Company's compliance with the various authorities and legislation, (v) the competencies, independence and work of the external and internal auditors, and (vi) the performance of the other responsibilities set out in the Committee's mandate as well as those delegated to the Committee by the Board of Directors.

The Development Committee is generally responsible for assisting the Board of Directors in the development of the Company's approach to real estate matters. The responsibilities of the Development Committee include, among other things, (i) analysing real estate investment opportunities submitted by management and, more specifically, the acquisition, lease or building of new stores to add to the Company's network of stores where the total investment is in excess of \$10 million, (ii) recommending and obtaining the Board of Directors' approval for the investments analysed by the Committee, (iii) following up changes in the financial condition of real estate sites (particularly reviewing budgets and comparative financial statements), and (iv) recommending and obtaining the Board of Directors' approval for a strategic real estate development plan from time to time.



Left to right:
Jacques Bougie, Monique F. Leroux and Jean Gaulin



Robert Dutton



André H. Gagnon

Board of Directors



Left to right:
Louise Caya, Jean-Guy Hébert, Jim Pantelidis,
Pierre Brodeur and Simon Cloutier



Left to right:
Jocelyn Tremblay and Louis A. Tanguay

Pierre Brodeur^{(3) (4)}
Corporate Director

Jacques Bougie^{(1) (3)}
Corporate Director

Louise Caya⁽⁴⁾
Vice-President and Secretary
Thomas Caya (1982) inc.
(hardware store) and
Vice-President
Industrie Fabco Inc.

Simon Cloutier⁽⁴⁾
President
Matériaux Decoren Inc.
(hardware store) and
General Manager
RONA L'entrepôt Brossard

Robert Dutton⁽⁵⁾
President and Chief
Executive Officer
RONA inc.

André H. Gagnon
President
H. Gagnon & Fils (1975) Ltée,
President
RONA Le Régional
Saint-Hyacinthe

Jean Gaulin^{(1) (2)}
Corporate Director

Jean-Guy Hébert⁽⁴⁾
President
Maximat Inc.
(holding company)
Gestion J.G. Hébert inc. and
RONA Le Régional Granby

Monique F. Leroux⁽¹⁾
Senior Executive Vice-President
and Chief Financial Officer of
Desjardins Group

Jim Pantelidis^{(3) (4)}
Chairman of the Board
President and Chief
Executive Officer
Fishercast Global Corporation

Louis A. Tanguay⁽²⁾
Corporate Director

Jocelyn Tremblay^{(2) (3)}
Vice-President Corporate Affairs
Vins Philippe Dandurand Inc.
(wine promotion agent)

- (1) Member of the Audit Committee.
- (2) Member of the Human Resources and Compensation Committee.
- (3) Member of the Nominating and Corporate Governance Committee.
- (4) Member of the Development Committee.
- (5) Mr. Dutton has been the President and Chief Executive Officer since 1992. Prior to that, Mr. Dutton held many positions within the Company, including Executive Vice-President and Chief Operating Officer from 1990 to 1992.

Note:

Mr. Alain Bouchard resigned his seat on the RONA Board of Directors on August 27, 2004. Mr Bouchard is Chairman of the Board and President and Chief Executive Officer of Alimentation Couche-Tard inc.

Officers

Robert Dutton
President and Chief Executive Officer

Claude Bernier
Executive Vice-President
Traditional Stores

Pierre Dandoy
Executive Vice-President
Big-Box Stores

Marc Dufresne
Executive Vice-President
Distribution

Normand Dumont
Executive Vice-President
Merchandising

Jean Émond
Senior Vice-President
People and Culture

Claude Guévin
Executive Vice-President and
Chief Financial Officer

Linda Michaud
Senior Vice-President
Information and Technology

Key Dates

Fiscal year end: December 25, 2005

Release of Quarterly Reports:

- Q1: May 10, 2005
- Q2: August 10, 2005
- Q3: November 8, 2005

Annual General Meeting:
May 10, 2005 at 11:00 a.m. (Eastern Time)
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1050 Sherbrooke Street West
Montreal QC

Transfer agent

National Bank Trust
1100 University Street
9th Floor
Montreal QC H3B 2G7
Phone (514) 871-7171
1-800-341-1419

Bankers

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

Auditors

Grant Thornton
S.E.N.C.R.L.
Chartered Accountants

RONA inc.
For information:
France Charlebois, Corporate Secretary
and General Counsel
Phone (514) 599-5155
chaf@rona.ca
Investor Relations
Sylvain Morissette, National Director
of Corporate Communications and Public Relations
Phone (514) 599-5123
mors@rona.ca

RONA Support Centres

Head Office and Quebec-
Atlantic Support Centre:
220 chemin du Tremblay
Boucherville QC J4B 8H7
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Ontario Support Centre:
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