



NEWS RELEASE
FOR IMMEDIATE RELEASE

RONA ENDS YEAR ON HIGH NOTE WITH INCREASED SALES AND PROFITS IN FOURTH QUARTER 2009

FOURTH QUARTER HIGHLIGHTS

- Sales increase 1.5% and same-store sales up 0.7%
- Operating income (EBITDA) margin up 22 basis points (10 basis points excluding unusual items related to store consolidations in 2008)
- Net earnings \$30.9 million, up \$1.1 million from 2008.
- Diluted earnings per share at \$0.24, compared to \$0.25 in fourth quarter 2008 – short-term dilution effect of \$0.02 per share following stock issue last June
- Substantial numbers of applications for RONAdvantage home renovation tax credit incentive program, representing home renovation projects worth more than \$140 million over the full duration of the program
- Four new controlled labels launched (FACTO, UBERHAUS, UBERHAUS DESIGN and UBERHAUS PRO) and four new product categories introduced
- Launch of the new STUDIO by RONA store concept featuring interior decoration and paint – 3 new stores already open
- Creation of an innovative succession planning program to facilitate store acquisitions for aspiring entrepreneurs

Boucherville, Quebec, February 25, 2010 – RONA inc. (TSX: RON), the largest Canadian distributor and retailer of hardware, renovation and gardening products, posted consolidated sales of \$1,140.9 million in fourth quarter 2009, up \$16.3 million or 1.5% from the \$1,124.6 million sales figure posted in 2008. This growth stems from a 0.7% increase in same-store sales, new store openings and higher distribution sales. The fourth quarter also saw a return to increased profits for RONA, with net earnings of \$30.9 million, up \$1.1 million from 2008.

Consolidated sales for the 2009 fiscal year totalled \$4,677.4 million, a decrease of \$213.8 million or 4.4% less than the \$4,891.1 million figure posted in 2008. This is the result of a 4.8% decline in same-store sales and lower distribution sales, due mainly to a drop in housing starts this year, especially in the first half of the year, which put downward pressure on sales by building materials specialists and on home renovation spending, since new home buyers generally undertake major improvements in the months and years immediately following their purchase of a new property. The decline in same-store sales can also be attributed to low consumer confidence in Canada, which still lags behind last year, despite some recent improvement.

Fourth quarter 2009 operating income reached \$78.8 million compared to \$75.3 million, up \$3.5 million or 4.7% over fourth quarter 2008. The EBITDA margin grew by 22 basis points, from 6.69% to 6.91%. Operating income, excluding unusual items related to store consolidation in 2008, was \$78.4 million in fourth quarter 2009, up \$2.3 million or 3.0% over fourth quarter 2008. The EBITDA margin, excluding unusual items, grew by 10 basis points, from 6.77% to 6.87%.

Operating income for fiscal year 2009 amounted to \$333.0 million, down \$31.7 million or 8.7% from the \$364.7 million posted in 2008. The EBITDA margin went from 7.46% in 2008 to 7.12% in 2009, a decrease of 34 basis points, due largely to the pressure of lower same-store sales on costs that are hard to contain. Excluding unusual items, operating income was \$346.8 million in 2009, down \$30.1 million or 8.0% from 2008. The EBITDA margin declined

from 7.71% in 2008 to 7.41% in 2009, a decrease of 30 basis points, despite a 4.8% reduction in same-store sales and a greater proportion of distribution activities, which generate lower margins than retail activities.

Net earnings for 2009, including unusual items, decreased by \$18.2 million or 11.6% to \$138.3 million or \$1.11 per share (diluted), compared to \$156.5 million or \$1.34 per share (diluted) in 2008. Excluding unusual items, net earnings were \$147.8 million in 2009, or \$1.19 per share (diluted), compared to \$167.5 million or \$1.44 per share (diluted) in 2008, down \$19.7 million or 11.7%. The numerous efficiency improvements introduced under the PEP program (productivity, efficiency, profitability) in Phase 1 of RONA's 2008-2011 strategic plan helped offset the negative impact of continued pressure on sales in the renovation-construction industry due largely to low consumer confidence. Since the beginning of the year, the PEP program has, for example, helped RONA improve its gross margin, reduce inventories, optimize its existing store network and reduce transportation and logistics costs.

"RONA's 2009 results clearly show that our business plan was on the money for the tough economic situation we were facing. We're ending the year with same-store sales and net earnings up for the fourth quarter. This improvement in our performance reflects the beginnings of an economic recovery, plus the success of RONA's own efficiency improvement program and our many renovation stimulus initiatives," said RONA president and CEO Robert Dutton.

"Over the last two years, our 30,000 employees have pooled their talents and efforts to make RONA the most efficient, most innovative company in our industry in Canada. The many improvements we've made, and those still to come in the years ahead, have put us in a very advantageous position in our industry, so we can capitalize on the four growth vectors that are the foundation of our success: customer growth, development of the affiliated dealers' network, construction of new stores, and strategic acquisitions. I can assure you that RONA is more ready than ever for the recovery and set to undertake a new growth phase with our New World program," Dutton concluded.

2009 MAIN ACHIEVEMENTS

RONA's 2008-2011 strategic plan was presented to the financial community during Investors Day on February 27, 2008 in Montreal. A news release outlining the issues and objectives of the plan was also published that day. RONA management made a commitment to provide continuous updates of the plan's progress. The information below presents the Company's main achievements in 2009 with regards to the 2008-2011 strategic plan.

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

- There was a major increase in applications for the RONAdvantage home renovation tax credit incentive program. Over 18,000 applications representing renovation projects worth more than \$140 million were received across the RONA network.
- The success of RONAdvantage has also had a major positive effect on the number of new RONA VISA Desjardins credit cards issued since the beginning of the year (over 30% growth), the volume of financing (over 60% growth), installation services (over 15% growth) and the use of RONA Project Guides to help carry out these renovation projects.
- The new top-quality controlled-label HAUSSMANN and HAUSSMANN XPERT tools were launched and some 40 new RONA ECO products were introduced.
- Penetration by RONA private brand and controlled-label products increased from 17% at the beginning of 2009 to over 19% at year end.
- Four new controlled labels (FACTO, UBERHAUS, UBERHAUS DESIGN and UBERHAUS PRO) and four new product categories were launched.
- Commercial and professional sales at big-box stores in Ontario increased over 15%.
- Same-store sales grew for Noble Trade Plumbing Supplies, despite a declining market.
- A 188,000-square-foot expansion was undertaken at the Commercial and Professional Market division distribution centre in Ontario, which specializes in plumbing, heating and ventilation supplies, in order to increase the variety of products available.
- Two new 52,000-square-foot proximity stores were opened: one under the TOTEM Building Supplies banner in Strathmore, Alberta, and one under the RONA banner in Saint-Georges, Quebec.

- The Réno-Dépôt renovation program was finalized. This includes major renovations in several stores and a major reconstruction and expansion of the store in LaSalle, Quebec.
 - STUDIO by RONA, a new store concept, was launched, with three new stores opened in the Montreal region late in the year.
 - An exclusive partnership agreement was signed with Maple Leaf Sports & Entertainment Ltd. that delivers permanent, on-camera RONA branding during home games by the teams in the Maple Leaf organization at the Air Canada Centre (including on-ice RONA logos) and Ricoh Coliseum.
- 2. Improvement in the profitability of our corporate store network:**
- Consolidated gross margin increased by 8 basis points. Given better terms and conditions from our suppliers and the resulting supportive effect on the growth of the network, the adjusted gross margin increased by 34 basis points. This increase stems from a major reduction in store losses (“shrink”), an increase in the penetration rate of private brand and controlled-label products, further improvements in terms and conditions from our suppliers and optimized management of product categories.
 - Our turnaround plan for underperforming stores has produced very good results, as these stores have posted relatively higher increases in sales and operating income than the network as a whole this year.
 - Improved opening process for new stores, including increased marketing and merchandising activities in the pre-opening period and better coordination and integration of the Company’s development activities.
- 3. Optimization of the supply chain:**
- A \$50 million or 6.6% reduction in same-store and distribution centre inventories (excluding acquisitions and new stores) compared to 2008 resulted in lower operating costs and financial charges. Inventories were reduced by \$37 million, including new stores and acquisitions.
 - Reduced transportation costs and ongoing improvements in demand management resulted in a reduction of over \$8 million in logistics costs in 2009.
 - Gains in efficiency were made at our distribution centres and stock rotation was better, despite declining sales.
- 4. Accelerate recruitment of independent dealer-owners:**
- In 2009, 14 dealer-owners were recruited, representing estimated annual retail sales of over \$30 million.
 - RONA dealer-owners have been very busy this year, completing 96 expansion and renovation projects totalling nearly \$50 million in investments.
 - Jean-Luc Meunier was appointed senior vice president, affiliate dealer-owner network development. At RONA, Meunier’s team is in charge of recruitment and development of the affiliate dealer-owner network and dealer support.
 - An innovative succession planning program was introduced at the end of the year. This program is designed to facilitate store acquisitions by family members of independent dealer-owners, by RONA employees or by aspiring entrepreneurs from outside the Company.
 - In February 2010 the Company launched a dynamic nationwide campaign targeting hardware, lumber and building materials dealers with a view to acquiring their businesses or helping them develop their own succession plans based on RONA’s new program.

CASH FLOWS AND FINANCIAL POSITION

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

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

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

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

OUTLOOK

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

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

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

The main financial objectives of the New World program are:

- Increase the EBITDA margin by 20 to 30 basis points per year.
- Increase earnings per share by an average of 10% to 15% over the period.
- Increase the return on capital by 75 to 100 basis points over the period.
- Maintain a top-quality credit rating.

Achievement of these objectives is based on the following assumptions:

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

The quarterly breakdown for spending on advertising in 2010 will be quite different from 2009. Close to \$5 million will be spent in the first quarter under the major "Made in Canada" campaign for the 2010 Vancouver Olympics. This amount will however be offset by equivalent reductions in the next quarters of 2010. RONA expects this campaign to have a significant impact on the company's reputation from coast to coast.

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

ADDITIONAL INFORMATION

The *Management's Discussion and Analysis (MD&A)* and unaudited financial statements for 2009 can be found in the "Investor Relations" section of the Company's website at www.rona.ca, and at www.sedar.com. The Company's Annual Report can also be found on the RONA website, along with other information about RONA, including its *Annual Information Form*, which can also be found on the SEDAR website.

TELEPHONE CONFERENCE WITH THE FINANCIAL COMMUNITY

On Thursday, February 25, 2010, at 1:00 p.m. (EST), RONA will hold a telephone conference for the financial community. To join the conference, please call 514-861-4190 or 1 877 677-7769. To listen to the call online, please go to: <http://events.startcast.com/events6/153/C0010/Default.aspx>.

NON-GAAP PERFORMANCE MEASURES

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

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

FORWARD-LOOKING STATEMENTS

This *News Release* includes "forward-looking statements" that involve risks and uncertainties. All statements other than statements of historical facts included in this *News Release*, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the Company, may constitute forward-looking statements within the meaning of the Canadian securities legislation and regulations. Investors and others are cautioned that undue reliance should not be placed on any forward-looking statements.

For more information on the risks, uncertainties and assumptions that would cause the Company's actual results to differ from current expectations, please also refer to the Company's public filings available at www.sedar.com and www.rona.ca. In particular, further details and descriptions of these and other factors are disclosed in the MD&A under the "Risks and uncertainties" section and in the "Risk factors" section of the Company's current Annual Information Form.

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

ABOUT RONA

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of nearly 700 corporate, franchise and affiliate stores of various sizes and formats. With close to 30,000 employees working under its family of banners in every region of Canada and more than 16 million square feet of retail space, the RONA store network generates over \$6 billion in annual retail sales. Visit rona.ca.

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MANAGEMENT'S DISCUSSION AND ANALYSIS 2009

YEAR ENDED DECEMBER 27, 2009

Please note that this Management's Discussion and Analysis (MD&A) refers to unaudited 2009 fourth quarter and fiscal year end financial statements. In the coming weeks, the 2009 MD&A including the evaluation of controls and disclosures in accordance with the MI 52-109 guidelines as well as reference to the 2009 audited financial statements, will be filed with SEDAR.

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

RONA's sales include:

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

FINANCIAL STATEMENTS

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

NON-GAAP PERFORMANCE MEASURES

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

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

NEW ACCOUNTING STANDARD

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

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

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

Prepaid expenses have also been reduced by \$21.9 million, other assets by \$11.3 million, and opening retained earnings by \$20.5 million. The detailed impact of these new recommendations on the consolidated financial statements in their first year of application is explained on page 20 of this report and in Note 2 of the Consolidated Financial Statements.

FISCAL YEAR

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

HIGHLIGHTS OF THE LAST THREE YEARS

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

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

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

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

RONA: Key figures for 2009, 2008 and 2007
(In millions of dollars, except number of shares and earnings per share)

	Year ended		
	December 27, 2009	December 28, 2008 (Restated)	December 30, 2007 (Restated)
Sales	4,677.4	4,891.1	4,785.1
Net earnings	138.3	156.5	178.6
Net earnings per share	\$1.12	\$1.35	\$1.55
Diluted earnings per share	\$1.11	\$1.34	\$1.53
Net earnings (excluding unusual items)	147.8	167.5	178.6
Earnings per share (excluding unusual items)	\$1.20	\$1.45	\$1.55
Diluted earnings per share (excluding unusual items)	\$1.19	\$1.44	\$1.53
Total assets	2,749.9	2,478.9	2,458.7
Long-term debt	440.5	494.2	636.8
Number of shares outstanding at year end	129,653,383	115,819,699	115,412,766

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

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

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

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

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

UPDATE ON THE COMPANY'S STRATEGIC ORIENTATION

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

Achievements in 2009

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

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

- There was a major increase in applications for the RONAdvantage program, which provides rebates in the form of gift certificates to a maximum of \$1,000 as a complementary incentive under the new home renovation tax credit programs. Over 18,000 applications representing renovation projects worth more than \$140 million were received across the RONA network.
- The success of RONAdvantage has also had a major positive effect on the number of new RONA VISA Desjardins credit cards issued since the beginning of the year (over 30% growth), the volume of financing (over 60% growth), installation services (over 15% growth) and the use of RONA Project Guides to help carry out these renovation projects.
- Penetration by RONA private brand and controlled-label products increased from 17% at the beginning of 2009 to over 19% at year end.
- The new top-quality controlled-label HAUSSMANN and HAUSSMANN XPRT tools were launched and are now available in all RONA network stores, including Réno-Dépôt stores in Quebec. HAUSSMANN and HAUSSMANN XPRT tools and accessories are exclusive to RONA and offer the latest features in professional tool technology.
- Some 40 new RONA ECO products were introduced. Selected in partnership with the International Chair in Life Cycle Assessment, these new products include recovered and recycled RONA ECO paint.
- Four new product categories (indoor furniture, workwear, automobile products and small appliances) and four new controlled labels (FACTO, UBERHAUS, UBERHAUS DESIGN and UBERHAUS PRO) were launched at the RONA 2010 Spring Show.
- Commercial and professional sales at big-box stores in Ontario increased over 15%, thanks to close cooperation with our Commercial and Professional Market Division's specialized sales team.
- Same-store sales grew for Noble Trade Plumbing Supplies, despite a declining market.
- A 188,000-square-foot expansion was undertaken at the Commercial and Professional Market Division distribution centre in Ontario, which specializes in plumbing, heating and ventilation supplies, in order to increase the variety of products available.

- Two new 52,000-square-foot proximity stores were opened: one under the TOTEM Building Supplies banner in Strathmore, Alberta, and one under the RONA banner in Saint-Georges, Quebec. These concepts, which are improved with each new opening, are very promising growth vehicles for the years ahead. They provide excellent balance between the large product selection in big-box stores and the expertise available in smaller stores. These are the first two RONA stores to seek certification by the LEED (Leadership in Energy and Environmental Design) environmental evaluation system for new buildings.
 - The Réno-Dépôt renovation program was finalized. This includes major renovations in several stores and a major reconstruction and expansion of the store in LaSalle, Quebec. The new store now measures 130,000 square feet.
 - STUDIO by RONA, a new store concept, was launched, with three new stores opened in the Montreal area late in the year.
 - An exclusive partnership agreement was signed with Maple Leaf Sports & Entertainment Ltd. that delivers permanent, on-camera RONA branding during home games by the teams in the Maple Leaf organization at the Air Canada Centre (including on-ice RONA logos) and Ricoh Coliseum.
 - *My RONA Home*, a new 10-episode English-language reality TV show, was launched in October.
 - A new multi-platform advertising campaign was launched for RONA's 70th anniversary, including major discounts on selected items, thousands of AIR MILES® rewards, draws for trips to the 2010 Winter Olympic Games in Vancouver and a variety of other prizes.
- 2. Improvement in the profitability of our corporate store network:**
- Consolidated gross margin increased by 8 basis points. Given better terms and conditions from our suppliers and the resulting supportive effect on the growth of the network, the adjusted gross margin increased by 34 basis points. This increase stems from a major reduction in store losses ("shrink"), an increase in the penetration rate of private brand and controlled-label products, further improvements in terms and conditions from our suppliers and optimized management of product categories.
 - Our turnaround plan for underperforming stores has produced very good results, as these stores have posted relatively higher increases in sales and operating income than the network as a whole this year.
 - Improved opening process for new stores, including increased marketing and merchandising activities in the pre-opening period and better coordination and integration of the Company's development activities.
- 3. Optimization of the supply chain:**
- A \$50 million or 6.6% reduction in same-store and distribution centre inventories (excluding acquisitions and new stores) compared to 2008 resulted in lower operating costs and financial charges. Inventories were reduced by \$37 million, including new stores and acquisitions.
 - Reduced transportation costs and ongoing improvements in demand management resulted in a reduction of over \$8 million in logistics costs in 2009.
 - Gains in efficiency were made at our distribution centres and stock rotation was better, despite declining sales.
- 4. Development of the affiliated dealer network:**
- In 2009, 14 dealer-owners were recruited, representing estimated annual retail sales of over \$30 million.
 - RONA dealer-owners have been very busy this year, completing 96 expansion and renovation projects totalling nearly \$50 million in investments.
 - Jean-Luc Meunier was appointed senior vice president, affiliate dealer-owner network development. At RONA, Meunier's team is in charge of recruitment and development of the affiliate dealer-owner network and dealer support.
 - An innovative succession planning program was introduced at the end of the year. This program is designed to facilitate store acquisitions by family members of independent dealer-owners, by RONA employees or by aspiring entrepreneurs from outside the Company.
 - In February 2010 the Company launched a dynamic nationwide campaign targeting hardware, lumber and building materials dealers with a view to acquiring their businesses or helping them develop their own succession plans based on RONA's new program.

Phase 2: New World program

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

The New World program reflects rapidly changing behaviours

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

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

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

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

The main financial objectives of the New World program are:

- Increase the EBITDA margin by 20 to 30 basis points per year.
- Increase earnings per share by an average of 10% to 15% over the period.
- Increase the return on capital by 75 to 100 basis points over the period.
- Maintain a top-quality credit rating.

Achievement of these objectives is based on the following assumptions:

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

In 2010 and 2011, RONA will focus its efforts mainly on strengthening our position in Ontario and Western Canada through targeted renovation, expansion, relocation and consolidation projects, while continuing to develop our

markets in Quebec and the Atlantic Provinces. Growing our professional and commercial market remains another priority.

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

ANALYSIS OF CONSOLIDATED RESULTS

Economic conditions

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

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

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

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

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

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

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

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

Consolidated sales

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

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

Gross margin

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

Store closures (unusual items)

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

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

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

Consolidated operating income

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

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

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

Interest, depreciation and amortization

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

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

Net earnings

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

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

ANALYSIS OF SEGMENT RESULTS

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

RONA: key segment figures for the year ended December 27, 2009

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

Corporate and franchise stores

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

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

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

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

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

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

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

Distribution

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

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

CASH FLOWS AND FINANCIAL POSITION

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

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

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

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

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

**RONA: Contractual obligations by term
(as at December 27, 2009)**

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

**RONA: Outstanding shares
As at February 11, 2010**

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

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

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

QUARTERLY PERFORMANCE

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

RONA: Consolidated quarterly financial results (In millions of dollars, except earnings per share)

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

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

Annual change in same-store sales Last nine quarters

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

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

Quarterly performance in 2008

First quarter

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

The net loss in first quarter 2008 was \$2.4 million, or \$0.02 per share, compared to net earnings of \$8.0 million or \$0.07 per share in 2007. This decrease can be explained by pressure on sales in the renovation – construction industry resulting from low consumer confidence and the effects of poor weather conditions. The decline was also

related to new stores that had not yet reached their full potential. A rapid adjustment in the Company's cost structure at the beginning of the year failed to offset these factors, since this is the time of the year when traffic in stores is at its lowest and variable costs are harder to contain. The first quarter historically represents only about 15% of annual sales and 5% of annual earnings.

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

Second quarter

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

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

Third quarter

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

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

Fourth quarter

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

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

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

Quarterly performance in 2009

First quarter

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

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

Second quarter

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

Net earnings, including unusual items, declined by 20.7% to \$60.8 million, or \$0.51 per share (diluted), compared to \$76.6 million or \$0.66 per share (diluted) in 2008. Excluding unusual items posted this quarter, net earnings were \$66.5 million in second quarter 2009, or \$0.55 per share (diluted), compared to \$80.6 million or \$0.69 per share

(diluted) in 2008, for a decrease of \$14.2 million or 17.6%. This decline stems largely from weaker same-store sales and increased promotional activities. These factors were partly offset by a significant reduction in interest costs this quarter.

Third quarter

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

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

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

Fourth quarter

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

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

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

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

OUTLOOK

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

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

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

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

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

RISKS AND UNCERTAINTIES

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

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

Market and competition

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

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

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

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

The economy

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

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

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

Human resources

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

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

Information technology

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

Reputation

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

Supply chain

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

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

Acquisition / Recruitment / Integration / Development

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

Legal and regulatory requirements

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

Accounting standards

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

Availability of financing

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

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

CHANGES IN ACCOUNTING POLICIES**Goodwill and intangible assets**

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

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

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

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

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

Financial Instruments – Disclosures

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

NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

Business combinations

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

Consolidated financial statements and non-controlling interests

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

International Financial Reporting Standards (IFRS)

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

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

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

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

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

Possible impact of implementation

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

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

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

Employee future benefits

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

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

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

Fixed assets

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

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

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

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

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

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

Business combinations

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

Profit realized on a sale and leaseback transaction

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

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

Significant accounting estimates

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

Inventory

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

Volume rebates

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

Long-term assets

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

Goodwill and non-amortizable trademarks

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

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

Income taxes

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

Employee future benefits

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

DISCLOSURE OF FINANCIAL INFORMATION

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

INTERNAL CONTROL OVER FINANCIAL REPORTING

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

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

FORWARD-LOOKING STATEMENTS

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

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

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

ADDITIONAL INFORMATION

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

Claude Guévin (signed)

Claude Guévin, CA
Executive Vice President
and Chief Financial Officer

Robert Dutton (signed)

Robert Dutton
President and Chief Executive Officer



Consolidated Financial Statements

December 27, 2009 and December 28, 2008

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RONA inc.

Consolidated Earnings

Years ended December 27, 2009 and December 28, 2008

(Unaudited, in thousands of dollars, except earnings per share)

	Fourth Quarter		Year-to-date	
	2009	2008	2009	2008
	(Restated – Note 2)		(Restated – Note 2)	
Sales	\$ 1,140,932	\$ 1,124,612	\$ 4,677,359	\$ 4,891,122
Earnings before the following items (Note 6)	78,811	75,292	332,994	364,729
Interest on long-term debt	5,277	5,694	20,951	28,106
Interest on bank loans	855	590	2,586	2,134
Depreciation and amortization (Notes 12,14,15)	25,744	24,678	103,160	100,958
	31,876	30,962	126,697	131,198
Earnings before income taxes and non-controlling interest	46,935	44,330	206,297	233,531
Income taxes (Note 7)	14,268	13,656	62,714	71,928
Earnings before non-controlling interest	32,667	30,674	143,583	161,603
Non-controlling interest	1,842	921	5,331	5,152
Net earnings and comprehensive income	\$ 30,825	\$ 29,753	\$ 138,252	\$ 156,451
Net earnings per share (Note 27)				
Basic	\$ 0.24	\$ 0.26	\$ 1.12	\$ 1.35
Diluted	\$ 0.24	\$ 0.25	\$ 1.11	\$ 1.34

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

RONA inc.

**Consolidated Retained Earnings
Consolidated Contributed Surplus**

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

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

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

RONA inc.

Consolidated Cash Flows

Years ended December 27, 2009 and December 28, 2008

(Unaudited, in thousands of dollars)

	Fourth Quarter		Year-to-date	
	2009	2008	2009	2008
	(Restated – Note 2)		(Restated – Note 2)	
Operating activities				
Net earnings	\$ 30,825	\$ 29,753	\$ 138,252	\$ 156,451
Non-cash items				
Depreciation and amortization	25,744	24,678	103,160	100,958
Derivative financial instruments	72	1,011	(1,116)	1,192
Future income taxes	6,499	(1,867)	9,225	(2,917)
Net gain on disposal of assets	(523)	(926)	(2,358)	(2,796)
Impairment charge on fixed assets held for sale	–	–	2,050	–
Compensation cost relating to stock option plans	237	380	946	1,518
Compensation cost relating to share unit plans	710	296	2,557	1,091
Non-controlling interest	1,842	921	5,331	5,152
Other items	576	1,259	1,975	3,465
	65,982	55,505	260,022	264,114
Changes in working capital items (Note 8)	138	27,880	22,752	83,373
Cash flows from operating activities	66,120	83,385	282,774	347,487
Investing activities				
Business acquisitions (Note 9)	(520)	(765)	(3,734)	(4,824)
Advances to joint ventures and other advances	57	(18)	5	8,139
Other investments	(499)	(715)	(3,995)	(3,155)
Fixed assets	(23,956)	(50,749)	(115,713)	(161,869)
Intangible assets	(13,844)	(15,714)	(46,186)	(34,276)
Other assets	(75)	(754)	(4,837)	(10,565)
Disposal of fixed assets	1,596	2,777	6,291	11,686
Disposal of investments	517	1,908	2,422	10,618
Cash flows from investing activities	(36,724)	(64,030)	(165,747)	(184,246)
Financing activities				
Bank loans and revolving credit	(810)	(25,354)	(43,046)	(131,518)
Other long-term debt	458	6,583	646	8,560
Repayment of other long-term debt and redemption of preferred shares	(6,234)	(15,904)	(15,819)	(33,946)
Issue of common shares	1,141	1,194	176,936	5,592
Cash dividends paid by a subsidiary to non-controlling interest	(1,470)	(2,450)	(1,470)	(2,450)
Expenses relating to the issue of common shares	–	–	(7,362)	–
Cash flows from financing activities	(6,915)	(35,931)	109,885	(153,762)
Net increase (decrease) in cash	22,481	(16,576)	226,912	9,479
Cash, beginning of year	216,776	28,921	12,345	2,866
Cash, end of year	\$ 239,257	\$ 12,345	\$ 239,257	\$ 12,345
Supplementary information				
Interest paid	\$ 535	\$ 1,541	\$ 25,493	\$ 33,165
Income taxes paid	\$ 19,124	\$ 8,255	\$ 49,450	\$ 75,508

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

RONA inc.**Consolidated Balance Sheets**

December 27, 2009 and December 28, 2008

(Unaudited, in thousands of dollars)

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

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

RONA inc.
Notes to Consolidated Financial Statements
December 27, 2009 and December 28, 2008
(Unaudited, in thousands of dollars, except amounts per share)

1. Governing statutes and nature of operations

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

2. Changes in accounting policies

Goodwill and intangible assets

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

RONA inc.
Notes to Consolidated Financial Statements
December 27, 2009 and December 28, 2008
(Unaudited, in thousands of dollars, except amounts per share)

2. Changes in accounting policies (continued)

Goodwill and intangible assets (continued)

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

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

RONA inc.

Notes to Consolidated Financial Statements

December 27, 2009 and December 28, 2008

(Unaudited, in thousands of dollars, except amounts per share)

2. Changes in accounting policies (continued)

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

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

Financial instruments – disclosures

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

3. Effect of new accounting standards not yet implemented

Business combinations

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

Consolidated financial statements and non-controlling interests

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

International financial reporting standards (IFRS)

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

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

RONA inc.

Notes to Consolidated Financial Statements

December 27, 2009 and December 28, 2008

(Unaudited, in thousands of dollars, except amounts per share)

4. Summary of significant accounting policies

Accounting estimates

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

Principles of consolidation

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

Revenue recognition

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

Inventory valuation

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

Vendor rebates

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

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

Customer rebates

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

RONA inc.

Notes to Consolidated Financial Statements

December 27, 2009 and December 28, 2008

(Unaudited, in thousands of dollars, except amounts per share)

4. Summary of significant accounting policies (continued)

Fixed assets

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

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

Impairment of long-term assets

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

Intangible assets

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

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

Goodwill

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

RONA inc.
Notes to Consolidated Financial Statements
December 27, 2009 and December 28, 2008
(Unaudited, in thousands of dollars, except amounts per share)

4. Summary significant accounting policies (continued)

Other assets

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

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

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

Income taxes

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

Other long-term liabilities

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

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

Stock option plans

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

Share unit plan for officers

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

RONA inc.

Notes to Consolidated Financial Statements

December 27, 2009 and December 28, 2008

(Unaudited, in thousands of dollars, except amounts per share)

4. Summary of significant accounting policies (continued)

Share unit plan for directors

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

Foreign currency translation

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

Financial instruments

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

- Cash is classified as a "financial asset held for trading" and is measured at fair value. All changes in fair value are recognized in earnings.
- Accounts receivable and long-term loans and advances (included in investments) are classified as "loans and receivables" and are recognized at cost which, at initial measurement, corresponds to fair value. Subsequent revaluations of accounts receivable are recorded at amortized cost which generally corresponds to initial measurement less any allowance for doubtful accounts. Subsequent revaluations of long-term loans and advances are recognized at amortized cost using the effective interest method.
- Bank loans, accounts payable and accrued liabilities and the revolving credit are classified as "other financial liabilities". They are initially measured at fair value and subsequent revaluations are recognized at amortized cost using the effective interest method.

RONA inc.

Notes to Consolidated Financial Statements

December 27, 2009 and December 28, 2008

(Unaudited, in thousands of dollars, except amounts per share)

4. Summary of significant accounting policies (continued)

Financial instruments (continued)

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

Employee future benefits

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

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

- The actuarial determination of the accrued benefit obligations for pension uses the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees;
- For the purpose of calculating the expected return on plan assets, those assets are valued at fair value;
- Past service costs from plan amendments are deferred and amortized on a straight-line basis over the average remaining service period of employees active at the date of amendments;

RONA inc.

Notes to Consolidated Financial Statements

December 27, 2009 and December 28, 2008

(Unaudited, in thousands of dollars, except amounts per share)

4. Summary of significant accounting policies (continued)

Employee future benefits (continued)

- Actuarial gains (losses) arise from the difference between actual long-term rate of return on plan assets for a period and the expected long-term rate of return on plan assets for that period or from changes in actuarial assumptions used to determine the accrued benefit obligations. The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligations and the fair value of plan assets is amortized over the average remaining service period of the active employees. The average remaining service period of the active employees covered by the pension plans is 12 years (12 years at December 28, 2008);
- The transitional obligation is amortized on a straight-line basis over a period of 10 years, which is the average remaining service period of employees expected to receive benefits under the benefit plan in 2000.

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

Earnings per share and information pertaining to number of shares

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

Fiscal year

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

Comparative figures

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

5. Inventory

For the thirteen and fifty-two-week periods ended December 27, 2009, amounts of \$826,403 and \$3,397,928 of inventory were expensed in the consolidated results (\$815,797 and \$3,571,962 as at December 28, 2008). These amounts include an inventory write-down charge of \$5,738 and \$35,986 (\$7,840 and \$46,752 as at December 28, 2008).

RONA inc.

Notes to Consolidated Financial Statements

December 27, 2009 and December 28, 2008

(Unaudited, in thousands of dollars, except amounts per share)

6. Store closing costs

Exit and disposal costs and write-down of assets

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

	Fourth Quarter		Year-to-date	
	2009	2008	2009	2008
Lease obligations	\$ -	\$ -	\$ 14,355	\$ 4,231
Inventory write-down	-	100	525	2,214
Termination benefits	-	13	-	277
Total recorded in earnings before the following items	-	113	14,880	6,722
Fixed assets write-down	-	-	-	2,857
Total costs	\$ -	\$ 113	\$ 14,880	\$ 9,579

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

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

Other closing costs

During the thirteen and fifty-two-week periods ended December 27, 2009, in addition to the exit and disposal costs and write-down of assets, the Company recorded operating costs, including interest and depreciation, for the liquidation of the assets of these stores in the amounts of \$0 and \$1,230 (\$1,101 and \$5,202 as at December 28, 2008).

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7. Income taxes

	2009	2008
Current	\$ 53,489	\$ 74,845
Future	9,225	(2,917)
	<u>\$ 62,714</u>	<u>\$ 71,928</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:

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

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7. Income taxes (continued)

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

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

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8. Cash flow information

The changes in working capital items are detailed as follows:

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

9. Business acquisitions

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

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

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

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

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10. Accounts receivable

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

11. Investments

	2009	2008
Companies subject to significant influence		
Shares, at equity value	\$ 4,495	\$ 3,342
Preferred shares, at cost, redeemable over 10 years, maturing in 2011	160	240
Loans and advances, at cost		
Mortgages and term notes, weighted average rate of 4,6% (5.9% in 2008), maturing at various dates until 2016	9,107	7,667
Other	860	665
	14,622	11,914
Portion receivable within one year	2,644	1,728
	\$ 11,978	\$ 10,186

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

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12. Fixed assets

	2009		
	Cost	Accumulated depreciation	Net
Land and parking lots	\$ 206,669	\$ 21,653	\$ 185,016
Buildings	277,229	57,236	219,993
Leasehold improvements	207,232	100,022	107,210
Furniture and equipment	358,615	208,742	149,873
Computer hardware	125,962	93,645	32,317
Projects in process ^(a)	65,685	-	65,685
Land for future development	99,750	-	99,750
Assets under capital leases ^(b)			
Furniture and equipment	15,076	8,227	6,849
Computer hardware	20,198	18,532	1,666
	<u>\$ 1,376,416</u>	<u>\$ 508,057</u>	<u>\$ 868,359</u>

	2008		
	Cost	Accumulated depreciation	Net
Land and parking lots	\$ 170,279	\$ 16,359	\$ 153,920
Buildings	259,219	45,919	213,300
Leasehold improvements	187,360	85,146	102,214
Furniture and equipment	333,593	181,992	151,601
Computer hardware	115,237	81,990	33,247
Projects in process ^(a)	62,819	-	62,819
Land for future development	91,707	-	91,707
Assets under capital leases ^(b)			
Furniture and equipment	15,501	6,616	8,885
Computer hardware	21,252	16,570	4,682
	<u>\$ 1,256,967</u>	<u>\$ 434,592</u>	<u>\$ 822,375</u>

Depreciation of fixed assets amounts to \$84,252 (\$84,350 of depreciation and \$2,857 relating to a fixed asset write-down in 2008).

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

(b) During the year, the Company acquired \$871 (\$2,743 in 2008) of assets under capital leases.

For the year ended December 27, 2009 capitalized interest on fixed assets amounts to \$4,514 (\$6,112 in 2008).

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13. Fixed assets held for sale

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

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

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

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

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

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14. Intangible assets

	2009		
	Cost	Accumulated amortization	Net
Intangible assets with definite lives			
Trademarks	\$ 2,174	\$ 1,348	\$ 826
Software	143,835	57,154	86,681
	<u>146,009</u>	<u>58,502</u>	<u>87,507</u>
Intangible assets with indefinite lives			
Trademarks	2,321	-	2,321
	<u>\$ 148,330</u>	<u>\$ 58,502</u>	<u>\$ 89,828</u>

	2008		
	Cost	Accumulated amortization	Net
Intangible assets with definite lives			
Trademarks	\$ 2,174	\$ 698	\$ 1,476
Software	98,326	45,067	53,259
	<u>100,500</u>	<u>45,765</u>	<u>54,735</u>
Intangible assets with indefinite lives			
Trademarks	2,321	-	2,321
	<u>\$ 102,821</u>	<u>\$ 45,765</u>	<u>\$ 57,056</u>

Amortization of intangible assets amounts to \$13,414 (\$10,558 in 2008).

For the year ended December 27, 2009, capitalized interest on software amounts to \$1,485 (\$477 in 2008).

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15. Other assets

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

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

16. Credit facilities

a) Parent company and some subsidiaries

Revolving credit

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

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

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

Letters of credit

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

b) Other subsidiaries

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

c) Joint ventures

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

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17. Long-term debt

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

(a) Effective rate of 5.5%.

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

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

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

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18. Other long-term liabilities

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

19. Guarantees, commitments and contingencies

Guarantees

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

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

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

Commitments

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

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

As part of the operation of big-box stores with dealer-owners, the Company is initially involved as a primary tenant and then signs a subleasing agreement with the dealer-owners. In this respect, the Company is committed under agreements expiring until 2023 which call for minimum lease payments of \$82,683 for the rental of premises and land on which the Company erected a building. In consideration thereof, the Company has signed subleasing agreements totalling \$81,979.

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19. Guarantees, commitments and contingencies (continued)

Commitments (continued)

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

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

Contingencies

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

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

20. Capital stock

Authorized

Unlimited number of shares

Common shares

Class A preferred shares, issuable in series

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

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

Class C preferred shares, issuable in series

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

Class D preferred shares, 4% cumulative dividend, redeemable at their issue price. Beginning in 2003, these shares are redeemable at their issue price over a maximum period of ten years on the basis of 10% per year (Note 17)

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20. Capital stock (continued)

Issued and fully paid:

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

	2009	
	Number of shares	Amount
Balance, beginning of year	115,819,699	\$ 423,477
Issuance in exchange for common share subscription deposits	328,692	3,744
Issuance under stock option plans	113,775	502
Issuance in exchange for cash ^(a)	13,391,217	172,736
Balance before elimination of reciprocal shareholdings	129,653,383	600,459
Elimination of reciprocal shareholdings	(80,251)	(524)
Balance, end of year	129,573,132	599,935
Deposits on common share subscriptions, net of eliminations of joint ventures ^(b)		3,821
		\$ 603,756

	2008	
	Number of shares	Amount
Balance, beginning of year	115,412,766	\$ 418,246
Issuance in exchange for common share subscription deposits	197,854	3,349
Issuance under stock option plans	89,000	309
Issuance in exchange for cash	120,079	1,573
Balance before elimination of reciprocal shareholdings	115,819,699	423,477
Elimination of reciprocal shareholdings	(72,396)	(435)
Balance, end of year	115,747,303	423,042
Deposits on common share subscriptions, net of eliminations of joint ventures ^(b)		3,744
		\$ 426,786

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

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

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21. Stock-based compensation

Stock option plans

Stock option plan of May 1, 2002

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

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

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

Stock option plan of October 24, 2002

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

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

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21. Stock-based compensation (continued)

Stock option plans (continued)

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

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

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

Compensation cost expensed with respect to this plan amounts to \$237 and \$946 for the thirteen and fifty-two-week periods ended December 27, 2009 (\$380 and \$1,518 at December 28, 2008).

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

	Options	2009 Weighted average exercise price
Balance, beginning of year	2,981,002	\$ 11.46
Granted	516,700	10.62
Exercised	(113,775)	4.11
Forfeited	(417,075)	19.47
Balance, end of year	2,966,852	10.47
Options exercisable, end of year	1,906,969	\$ 7.72

	Options	2008 Weighted average exercise price
Balance, beginning of year	2,922,552	\$ 11.31
Granted	258,200	13.99
Exercised	(89,000)	3.47
Forfeited	(110,750)	20.07
Balance, end of year	2,981,002	11.46
Options exercisable, end of year	1,965,569	\$ 7.22

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21. Stock-based compensation (continued)

Stock option plans (continued)

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

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

Share unit plan for officers

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

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

The expense recorded in the consolidated statement of earnings for the thirteen and fifty-two-week periods ended December 27, 2009 amounts to \$649 and \$1,568 (\$65 and \$651 in 2008).

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21. Stock-based compensation (continued)

Share unit plan for directors

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

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

The expense recorded in the consolidated statement of earnings for the thirteen and fifty-two-week periods ended December 27, 2009 amounts to \$61 and \$989 (\$231 and \$440 in 2008).

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22. Capital disclosures

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

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

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

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

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

23. Financial instruments

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

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

23. Financial instruments (continued)

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

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

Fair value hierarchy

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

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

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

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

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23. Financial instruments (continued)

Fair value hierarchy (continued)

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

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

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

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

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23. Financial instruments (continued)

Credit risk

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

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

The aging of accounts receivable is as follows:

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

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

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

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

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23. Financial instruments (continued)**Liquidity risk**

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

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

	2009				
	Total	Less than 1 year	1 - 2 years	3 - 4 years	5 years and more
Debentures	\$ 556,556	\$ 21,600	\$ 43,200	\$ 43,200	\$ 448,556
Mortgage loans and balances of purchase prices	34,213	5,395	15,724	8,431	4,663
Obligations under capital leases	7,295	3,818	2,820	455	202
Preferred shares	3,000	1,000	2,000	-	-
Bank loans	5,211	5,211	-	-	-
Accounts payable and accrued liabilities	418,257	418,257	-	-	-
Derivative financial instruments	776	776	-	-	-
Total	\$ 1,025,308	\$ 456,057	\$ 63,744	\$ 52,086	\$ 453,421

	2008				
	Total	Less than 1 year	1 - 2 years	3 - 4 years	5 years and more
Revolving credit	\$ 39,789	\$ -	\$ -	\$ 39,789	\$ -
Debentures	578,156	21,600	43,200	43,200	470,156
Mortgage loans and balances of purchase prices	43,386	9,962	10,184	14,977	8,263
Obligations under capital leases	11,467	5,016	5,561	819	71
Preferred shares	4,000	1,000	2,000	1,000	-
Bank loans	8,468	8,468	-	-	-
Accounts payable and accrued liabilities	412,698	412,698	-	-	-
Derivative financial instruments	2,180	2,180	-	-	-
Total	\$ 1,100,144	\$ 460,924	\$ 60,945	\$ 99,785	\$ 478,490

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23. Financial instruments (continued)

Exchange risk

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

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

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

Interest rate risk

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

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

24. Employee future benefits

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

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

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

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

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24. Employee future benefits (continued)

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

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

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24. Employee future benefits (continued)

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

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

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

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

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25. Information on joint ventures

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

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

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

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

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

26. Segmented information

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

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

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26. Segmented information (continued)

	Fourth Quarter		Year-to-date	
	2009	2008 (Restated)	2009	2008 (Restated)
Segment sales				
Corporate and franchised stores	\$ 877,304	\$ 866,837	\$ 3,540,227	\$ 3,741,748
Distribution	527,597	513,555	2,318,172	2,357,209
Total	1,404,901	1,380,392	5,858,399	6,098,957
Intersegment sales and royalties				
Corporate and franchised stores	-	-	-	-
Distribution	(263,969)	(255,780)	(1,181,040)	(1,207,835)
Total	(263,969)	(255,780)	(1,181,040)	(1,207,835)
Sales				
Corporate and franchised stores	877,304	866,837	3,540,227	3,741,748
Distribution	263,628	257,775	1,137,132	1,149,374
Total	1,140,932	1,124,612	4,677,359	4,891,122
Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest				
Corporate and franchised stores	92,580	87,131	370,812	403,119
Distribution	20,941	20,369	101,587	100,590
Total	113,521	107,500	472,399	503,709
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest				
Corporate and franchised stores	63,067	59,824	252,840	286,177
Distribution	15,744	15,468	80,154	78,552
Total	78,811	75,292	332,994	364,729
Acquisition of fixed assets and intangible assets				
Corporate and franchised stores	21,356	49,648	107,714	159,508
Distribution	16,443	17,392	54,290	41,832
Total	37,799	67,040	162,004	201,340
Goodwill				
Corporate and franchised stores	(91)	(1,456)	1,266	7
Distribution	-	-	-	-
Total	\$ (91)	\$ (1,456)	1,266	7
Total assets				
Corporate and franchised stores			2,116,883	2,105,008
Distribution			633,000	373,910
Total			\$ 2,749,883	\$ 2,478,918

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27. Net earnings per share

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

	Fourth Quarter		Year-to-date	
	2009	2008	2009	2008
	(Restated – Note 2)		(Restated – Note 2)	
Net earnings	\$ 30,825	\$ 29,753	\$ 138,252	\$ 156,451
Number of shares (in thousands)				
Weighted average number of shares used to compute basic net earnings per share	129,571.9	115,746.4	123,628.0	115,643.6
Effect of dilutive stock options ^(a)	1,100.4	965.5	1,073.2	1,060.1
Weighted average number of shares used to compute diluted net earnings per share	130,672.3	116,711.9	124,701.2	116,703.7
Net earnings per share				
Basic	\$ 0.24	\$ 0.26	\$ 1.12	\$ 1.35
Diluted	\$ 0.24	\$ 0.25	\$ 1.11	\$ 1.34

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