

## **RONA POSTS RECORD QUARTER WITH \$86 MILLION IN NET EARNINGS**

### **Highlights – Second quarter 2007**

- Sales up 9.1%
- Operating income up 11.6% and EBITDA margin up 20 basis points, from 10.8% to 11.0%
- Net earnings of \$86.2 million, or \$0.74 per share, an increase of 7.7% over 2006
- Results strengthened by recent acquisitions and additional measures taken at the beginning of the quarter to stimulate sales and earnings growth
- With about 15 acquisition opportunities under study and a very proactive recruiting approach, management's 7-07 Program remains on course

**Boucherville (Quebec), August 8, 2007** – RONA (TSX: RON), the largest Canadian distributor and retailer of hardware, home renovation and gardening products, has announced a 9.1% increase in sales and an 11.6% increase in operating income for the second quarter of 2007. This increase in sales and income can be attributed to acquisitions made in the last 12 months and additional measures taken at the beginning of the quarter to stimulate sales and earnings growth in a business environment that was more difficult than anticipated. Net earnings increased by \$6.2 million or 7.7%, from \$80.0 million in the second quarter of 2006 to \$86.2 million in the second quarter of this year.

“Considering the fact that current conditions are less favourable to a strong increase in same-store sales, we are satisfied with these second quarter numbers,” said Robert Dutton, RONA’s president and CEO. “We achieved these record results by taking additional measures to stimulate sales of our private label products, increase customer loyalty and improve our efficiency. The increase is also related to the integration of our recent acquisitions.”

“With about 15 acquisition opportunities under study and a very proactive recruiting approach, RONA is THE consolidator of the home renovation and construction market in Canada. We’re in a period that is very conducive to consolidation, and we have our eye on transactions that will allow us to improve our position and expand our product and service offering to consumers. I am still confident we can achieve the objective of our 7-07 Program, \$7 billion in annualized retail sales by the end of 2007,” Dutton added.

The increase in quarterly earnings was also boosted by a better product mix. Paint, hardware, plumbing and ventilation products, as well as kitchen and seasonal items, fared especially well in the second quarter.

Among the added initiatives planned to stimulate sales and improve customer service, RONA launched the Air Miles™ loyalty program in its network of Réno-Dépôt stores in the second quarter. The Company expects to reap the benefits of introducing this very popular program over the next few quarters.

In addition to these gains, the distribution segment posted more growth this quarter, with an increase of 5.6% in operating income. This performance reflects major efforts to expand the distribution network and increase efficiency.

Second quarter growth was achieved despite bad weather conditions in April all across the country and in May in Western Canada, a region of the country that normally records high sales growth.

## **FINANCIAL HIGHLIGHTS OF THE SECOND QUARTER 2007**

### **Sales up \$123.1 million, or 9.1%**

Consolidated sales for the second quarter of 2007 stood at \$1,469.1 million, or 9.1% higher than the \$1,346.0 million posted in 2006. This growth can be largely attributed to acquisitions and store openings. Excluding the contributions from major acquisitions, such as Noble Trade, Curtis Lumber, and Mountain Building Centres, consolidated sales rose 4.8%. This organic growth comes from sales generated by new stores opened over the last 12 months, the acquisition of affiliate stores, and a slight increase in sales in the distribution network. Excluding the 1.1% decline due to the drop in average forest product prices, same-store sales increased by 1.4% this quarter.

### **Operating income up \$16.8 million, or 11.6%**

Operating income reached \$161.8 million in the second quarter of 2007, an increase of \$16.8 million, or 11.6%, over 2006. EBITDA margin rose from 10.8% in 2006 to 11.0% in the second quarter of 2007. The increase in operating income can be mainly attributed to the primary effects of additional measures taken immediately after the publication of our first quarter 2007 results to support earnings growth, to the contributions of acquisitions in the corporate and franchise store segment, including synergies related to these acquisitions, and to continued robust performance in the distribution segment. The latter reflects significant efforts made to expand the distribution network and improve its efficiency, resulting in an increase of 20 basis points in the segment's operating income over the quarter. A gain of \$2.4 million recorded on the application of a new accounting standard for financial instruments also added to the increase in operating income for the quarter (for more information about this new standard, please see note 2 in our consolidated financial statements). During this quarter, major efforts were also made to stimulate sales and increase in-stores traffic, with promotional activities throughout the RONA network.

### **Net earnings up 7.7%**

Net earnings for the second quarter of 2007 stood at \$86.2 million, or \$0.74 per share, diluted, compared to \$80.0 million in 2006 or \$0.69 per share, diluted. This represents an increase of 7.7% in net earnings and 7.2% in diluted earnings per share. The factors that contributed to the increase in operating income also apply to the change in net earnings, but the gain in operating income was reduced by an increase in financial expenses and depreciation and amortization related to the expansion of the network. This is due to the fact that some recent investments have not yet reached their full potential contribution to the Company's consolidated results. Despite slower growth in the construction and renovation industry, RONA is pursuing investments in several development projects that will ensure a stronger position in the next few years.

## **FINANCIAL HIGHLIGHTS OF THE FIRST HALF OF 2007**

### **Sales up \$202.8 million, or 9.5%**

Consolidated sales for the first half of 2007 stood at \$2,347.6 million, or 9.5% more than the \$2,144.8 million recorded in 2006. This growth can be mainly attributed to acquisitions and store openings. Excluding the contributions of major acquisitions such as Noble Trade, Chester Dawe, Curtis Lumber, Matériaux Coupal and Mountain Building Centres, consolidated sales rose 4.7%. This organic growth stems from sales generated by new stores opened in the last 12 months, affiliate stores acquired by RONA, and a slight increase in sales in the distribution network.

Same-store sales increased by 0.2% over the 26-week period ended July 1, 2007. Excluding the 1.1% decline due to the drop in average forest product prices, same-store sales increased by 1.3% over the period.

**Operating income up \$15.0 million, or 8.0%**

RONA's operating income was \$202.6 million in the first half of 2007, up \$15.0 million, or 8.0%, over 2006. The increase in operating income can be mainly attributed to the primary effects of additional measures taken immediately after publication of our first quarter 2007 results to support earnings growth, to the contributions of acquisitions in the corporate and franchise store segment, including synergies related to these acquisitions, and to continued robust performance in the distribution segment. A gain of \$3.6 million recorded on the application of a new accounting standard for financial instruments also added to the increase in operating income for the half (for more information about this new standard, please see note 2 in our consolidated financial statements).

The EBITDA margin declined from 8.7% in 2006 to 8.6% in the first half of 2007. This figure was affected by the stronger seasonal effect in the first quarter 2007. In addition, the margin related to contributions from acquisitions, including affiliate stores, was lower than the margin recorded in 2006. During the first half, significant efforts were also made to stimulate sales and traffic, with promotional activities throughout the RONA network. These factors were counterbalanced by efficiency improvement measures and a favourable product mix during the second quarter.

**Net earnings**

Net earnings for the first half of 2007 stood at \$95.2 million, or \$0.82 per share, diluted, compared to \$96.4 million in 2006, or \$0.83 per share, diluted. This represents a drop of 1.2% in net earnings and diluted earnings per share. The decline in the first quarter 2007, due to stronger seasonal variations and unfavourable weather conditions, was almost completely compensated for by growth posted in the second quarter. Certain investments made to expand the RONA network are not yet fully contributing to the Company's results despite having generated significant depreciation and amortization and interest expenses. In spite of slower growth in the renovation industry, RONA is pursuing investments in several development projects that will ensure a stronger position in the next few years.

**CASH FLOWS AND FINANCIAL POSITION**

Operations generated \$111.5 million in the second quarter of 2007, compared to \$101.3 million in the same quarter of 2006. Including working capital items, operations generated \$169.8 million, compared to \$173.7 million in 2006. This decrease is primarily coming from the increase in inventories from acquisitions and new stores.

During the second quarter of 2007, \$65.4 million was invested in fixed assets. These investments related to the expansion of our retail network, namely construction of new stores as well as repairs, renovations and upgrades for existing stores to reflect our new concepts. Significant investments were also approved for the continuous improvement of information systems in order to increase our operational effectiveness.

RONA's balance sheet remains strong. As of July 1, 2007, the total debt-to-capital ratio was 37.9%, compared with 27.9% at the close of the second quarter in 2006. The Company's operations produce significant cash flows. With relatively low debt and rates fixed for 10 years on our long-term debt, we have significant liquidity and can access some \$250 million of additional credit at competitive rates. Last July, we extended the maturity date of our revolving credit by one year, from October 6, 2011, to October 6, 2012. Our resources are sufficient to continue our development along our four vectors of growth: sales growth in our existing network, construction of new corporate and franchise stores, recruitment of new affiliate stores, and acquisitions.

## **OUTLOOK**

For the last few quarters, the American economy has been experiencing a major correction in the real estate market. Housing starts and resales have dropped significantly, and the average price of homes has stopped increasing. The situation is very different in Canada, where all of RONA's sales are based. The drop in housing starts is much less pronounced than in the United States, and resales are still climbing despite CMHC predictions of a drop. The number of housing starts remains at historically high levels, and resales have reached new records, boosting housing prices, which have risen more than 10% since the beginning of the year.

A number of economists believe that the Canadian economy will grow faster than the American economy in 2007 and 2008, as long as economic activities related to natural resources remain strong and there is no major slowdown in housing construction and resales. Inflationary pressure, especially in Western Canada, recently induced the Bank of Canada to raise interest rates, and the trend seems likely to continue to rise over the next quarters, which could have a temporary impact on consumer confidence in Canada.

Recent data on housing resales still support a strong demand for products and services related to the renovation market, with a growth rate that is nevertheless significantly lower than growth in recent years. This explains why growth in same-store sales was weaker at the beginning of the year for major players in the industry. Management believes that sales contributions from existing stores may be weaker than expected this year. Given the effect of this situation on same-store earnings since the beginning of the year, the Company took additional measures to stimulate sales and improve operational efficiency at the beginning of the second quarter. These include a more dynamic approach to private label product sales, the introduction of new customer loyalty measures, and operational efficiency measures. These activities have already improved results in the second quarter and we are confident that they will continue to prove their worth in the coming quarters.

Growth in these quarters is expected to come from market consolidation and the recruitment of more dealer-owners, from the addition of new stores and from acquisitions. Although recruitment is down somewhat from this date last year, management remains confident of achieving its recruitment goal of about \$200 million. We still plan to open 10 new stores in 2007, with four already opened since the beginning of the year. In terms of acquisitions, we are currently studying 15 opportunities, and management is confident that a number of these opportunities could materialize.

## **ADDITIONAL INFORMATION**

The *Management Discussion and Analysis* and the financial statements for the second quarter 2007 are available on the Company website at [www.rona.ca](http://www.rona.ca) in the Investors section, and on [www.sedar.com](http://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.

## **NON-GAAP PERFORMANCE MEASURE**

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

While the meaning of EBITDA is not standardized by GAAP, it is widely used in our industry and financial circles to measure the profitability of operations, excluding tax considerations and the cost and

use of capital. As it is not standardized, EBITDA cannot be compared from one company to the next, but we calculate it internally in the same way for every identified segment, and, unless expressly mentioned, our method does not change over time. EBITDA should not be regarded in isolation or as a substitute for other measurements of performance calculated according to GAAP, but rather as additional information.

## **FORWARD-LOOKING STATEMENTS**

This press release includes “forward-looking statements” that involve risks and uncertainties. All statements other than statements of historical facts included in this press 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](http://www.sedar.com) and [www.rona.ca](http://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 2006 Annual Information Form.

The forward-looking statements in this press release reflect the Company’s expectations as of August 7, 2007, and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

## **ABOUT RONA**

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of 671 corporate, franchise and affiliate stores of various sizes and formats. With over 26,000 employees working under its family of banners in every region of Canada and more than 14 million square feet of retail space, the RONA store network generates close to \$6 billion in annual retail sales.

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# MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE SECOND QUARTER 2007

THIRTEEN-WEEK AND TWENTY-SIX-WEEK PERIODS ENDING JULY 1, 2007

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RONA inc. ("RONA", "the Company" or "we") is the largest retailer and distributor of hardware, home renovation and gardening products in Canada. As of August 7, 2007, its network consisted of 671 corporate, franchise and affiliate stores, as well as eight distribution centres.

RONA's sales include:

- Retail sales generated by its wholly-owned corporate stores
- Wholesale sales to affiliate stores owned by independent dealer-owners and to franchise stores (net of RONA's share of ownership)
- A share of retail sales of the franchise stores in which RONA holds an interest, as well as royalties on franchise sales

## FINANCIAL STATEMENTS

RONA's financial statements were prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are stated in Canadian dollars. RONA has filed its interim financial statements for the thirteen-week and twenty-six-week periods ending July 1, 2007, with the Canadian Securities Administrators. These financial statements can be viewed online at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.rona.ca](http://www.rona.ca). This interim MD&A should be read in conjunction with these financial statements and related notes.

## NON-GAAP PERFORMANCE MEASURE

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

While the meaning of EBITDA is not standardized by GAAP, it is widely used in our industry and financial circles to measure the profitability of operations, excluding tax considerations and the cost and use of capital. As it is not standardized, EBITDA cannot be compared from one company to the next, but we calculate it internally in the same way for every identified segment, and, unless expressly mentioned, our method does not change over time.

EBITDA should not be regarded in isolation or as a substitute for other measurements of performance calculated according to GAAP, but rather as additional information.

## UPDATE ON THE COMPANY'S STRATEGIC ORIENTATION

### Economic conditions

Overall, in the second quarter of 2007, economic conditions in Canada were generally favourable to our activities, with significant regional differences. The economy in Western Canada continued to enjoy a robust demand for natural resources, while the East was still affected by negative effects related to the rise of the Canadian dollar against the American dollar. The strength of the economy in the West pushed inflation to much higher levels in these regions than in Eastern Canada. Deeming the Canadian average inflation rate to be too high, the Bank of Canada raised its overnight rate from 4.25% to 4.50% in July, and its most recent report suggests that the prime rate may rise again soon.

Current interest rates are nevertheless historically low and still favourable to high levels of housing starts and resales, as forecast by the Canada Mortgage and Housing Corporation (CMHC). In its most recent report, the CMHC predicts that housing starts will drop to 209,500 in 2007, compared to 227,395 in 2006, a decrease of 7.9% but still at historically very high levels that are favourable for construction and renovation expenditures. Since the beginning of the year, housing starts across the country were 3.8% lower than those recorded for the same period in 2006. The decline was higher for single-family homes than for multiple-family housing, with a drop of 7.2% compared to 2.1%.

The CMHC also predicts a decrease in the sales of existing housing, from 483,337 in 2006 to 464,550 in 2007. Once again, this level is historically very high. The results posted since the beginning of the year show continued growth in housing resales, however, with new records being set. In the first half of 2007, housing resales rose 9% over 2006. This high level of activity also boosted the average price of homes, which rose 10.4% in the major Canadian residential markets.

The price of forest products continued to fall over the second quarter of 2007 in comparison to 2006. We estimate that the negative effect of the drop in average forest product prices on our second-quarter sales was 1.1% of sales in our corporate and franchise stores and 0.8% of sales in our distribution segment.

Finally, it is important to note that weather conditions were particularly unfavourable for sales early in the quarter in several regions of the country. In May, however, conditions were much better in Eastern Canada.

## The RONA network

**Table 1**  
**RONA: Number of stores as at August 7, 2007**

	<b>Big-box stores</b>	<b>Proximity stores</b>	<b>Specialized stores – Consumers</b>	<b>Specialized stores – ICI*</b>	
Corporate	RONA Le Régional RONA L'entrepôt RONA Home & Garden Réno-Dépôt	RONA Home Centre TOTEM RONA Le Rénovateur	RONA Building Centre RONA L'express Matériaux RONA Lansing RONA Cashway Chester Dawe	Curtis Lumber Matériaux Coupal Noble Trade	238
Franchise	RONA Le Régional RONA L'entrepôt	RONA Home Centre	RONA Cashway		23
Affiliate		RONA Le Quincaillier RONA Le Rénovateur RONA L'express RONA Hardware RONA Home Centre	RONA L'express Matériaux RONA Building Centre BOTANIX		410
	74	336	225	36	671
<b>8 distribution centres</b>					

\* ICI – Institutional, Commercial and Industrial

On August 7, 2007, the RONA network consisted of 671 stores. Since the beginning of the year, 32 stores have been added to the network, including 21 in Ontario. The acquisition of Noble Trade, which closed on April 2, added 19 stores and a distribution centre. A new RONA Home & Garden opened on April 3 in Scarborough in the Toronto area.

A new RONA big-box store opened on July 4 in Pierrefonds, Quebec. Two proximity stores also opened recently, one in Edmundston, New Brunswick, on July 11, and the other in Leamington, Ontario, on July 25. An ICI specialized store in British Columbia was converted into a proximity store during the quarter. Finally, nine affiliate stores were recruited since the beginning of the year and two affiliate stores located in Quebec were acquired by RONA, becoming corporate proximity stores.

### **The 7-07 Program**

RONA's development is based on four vectors of growth:

- Growth in the sales of our existing network, in particular same-store sales growth from corporate, franchise and affiliate stores
- Construction of new corporate and franchise stores
- Recruitment of new affiliate dealer-owners
- Acquisitions

The "7-07 Program" was launched at the beginning of 2006. The objective of this program is to maximize the four vectors of growth so that the total retail<sup>1</sup> sales from our network reach an annualized rate of \$7 billion at the end of 2007. Sales reached nearly \$5 billion at the end of 2005, and now are close to \$6 billion. This progression is in line with our objective. Current pressure on same-store sales will demand a greater contribution from potential acquisitions, however.

At the beginning of the second quarter, we closed the acquisition of Noble Trade. Noble Trade posted sales of nearly \$40 million in the second quarter and maintained a high operating margin. This acquisition fits perfectly with RONA's strategic plan. After Matériaux Coupal and Curtis Lumber in 2006, the acquisition of Noble Trade further accentuates RONA's presence among specialized stores serving commercial and professional customers. Noble Trade is a very profitable company with a proven management team, and it provides a high-quality platform from which we can continue RONA's development in a market with strong potential for consolidation.

To pursue our growth through acquisitions, RONA is currently studying 15 opportunities in our various sectors. Management is confident that a number of these opportunities could materialize and continue to improve RONA's position in the Canadian home renovation and construction market.

Organic sales growth (consolidated sales less major acquisitions) stood at 4.8% in the second quarter of 2007. Organic sales growth was driven primarily by the construction of new corporate stores. Same-store sales were up slightly at 0.3%. Excluding the decline due to the drop in forest product prices, same-store sales increased by 1.4%.

In 2006, eight new stores were opened, which contributed to the growth of sales in the second quarter of 2007. These included five big-box stores: two in Quebec (Charlemagne and Rimouski), one in Ontario (Barrie), one in Manitoba (Winnipeg) and one in British Columbia (Victoria/Langford). The remaining three are corporate proximity stores in Winkler (Manitoba) and Spruce Grove and Leduc, both in Alberta. These stores have not yet reached their full potential but show a general growth in sales

As mentioned at the beginning of the year, the Company anticipates building 15 stores in 2007, ten of which will be big-box stores – five in Ontario, one in Alberta, one in the Atlantic Provinces and three in Quebec. Eight of these stores are currently under construction and two were recently opened. Two proximity stores also opened recently, one in New Brunswick and one in Ontario. Construction is also underway on two of the three proximity stores planned for Ontario and Quebec this year. In addition, about 50 sites for new stores across the country have been approved by the Company's board of directors. This portfolio of approved sites assures the development of promising locations and will allow

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<sup>1</sup> "Retail sales" refers to the annualized combined sales of corporate, franchise and affiliate stores in the RONA network, regardless of ownership. This differs from the "consolidated sales" referred to elsewhere in this report, which include corporate sales, RONA's share and royalties from franchise store sales, and distribution sales to franchise and affiliate stores.

RONA to synchronize openings to seasonal variations in the market. Our bank of sites is currently evaluated at over \$80 million.

On April 3, just a few days into the second quarter of 2007, we opened a new 100,000-square-foot big-box RONA Home & Garden in Scarborough, Ontario, with an offering of some 40,000 products. The opening of this store represents an investment of \$20 million. A few days after the end of the second quarter, on July 4, we opened a new big-box store in Pierrefonds, Quebec. With a total investment of \$15 million and some 40,000 products on offer, this 80,000-square-foot store is the first example of RONA's new big-box concept. It includes specialized boutiques, installation services and an innovative service called "Project Guide," which involves experienced employees coaching customers through their renovation projects from the planning stages to completion. This is the first big-box store in Canada to be called only "RONA" with no additional designation such as "L'entrepôt" or "Home & Garden." In order to gradually standardize store names, the Company plans to use this approach – which is already being implemented for our proximity stores – for naming new stores as they are built and renaming existing stores as they are renovated.

During the month of July, two new proximity stores also opened, representing a total investment of nearly \$25 million. The first, opened July 11, is an all-new concept for a 35,000-square-foot proximity store with a product selection of 20,000 items, in Edmundston, New Brunswick. The second, measuring 52,000 square feet and offering 23,000 products, is in Leamington, Ontario.

In terms of recruitment, we added nine new affiliate dealer-owners since the beginning of the year, expanding our network by 85,000 square feet (excluding outside storage) and more than \$35 million in annual retail sales. Although recruitment is down somewhat from this date last year, management remains confident of achieving its recruitment goal of about \$200 million.

We are still planning to expand our Calgary Distribution Centre in order to meet our growing distribution needs in Western Canada, but due to the long delays in obtaining regulatory permission, we plan to begin construction in early 2008 rather than in 2007. The centre will double in size to 640,000 square feet, allowing the Company to consolidate satellite centres and improve efficiency.

During the second quarter of 2007, management continued its strategic planning review and expects to finalize the new 2008-2011 strategic plan during the next few weeks and communicate it this fall.

## **ANALYSIS OF CONSOLIDATED RESULTS FOR THE SECOND QUARTER OF 2007**

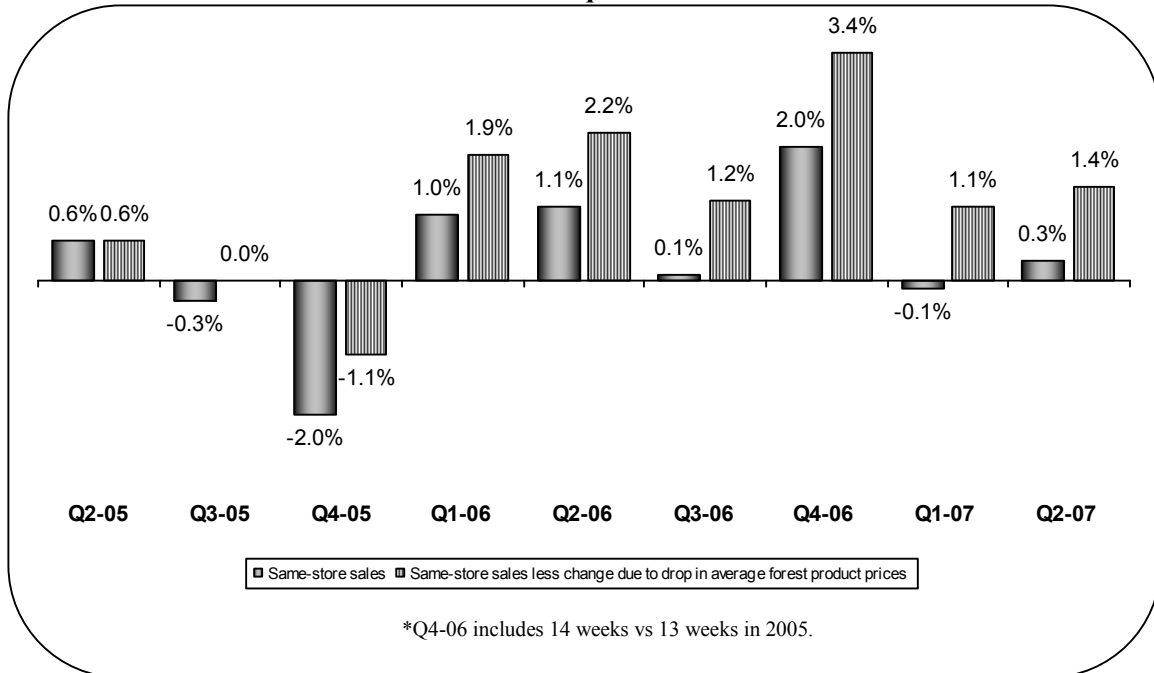
### **Sales up \$123.1 million, or 9.1%**

RONA's consolidated sales include the wholesale sales of the distribution centres, retail sales of the corporate stores and RONA's share of sales from franchise stores.

Consolidated sales for the second quarter of 2007 stood at \$1,469.1 million, or 9.1% higher than the \$1,346.0 million posted in 2006. This growth can be largely attributed to acquisitions and store openings. Excluding the contributions from major acquisitions, such as Noble Trade, Curtis Lumber, and Mountain Building Centres, consolidated sales rose 4.8%. This organic growth comes from sales generated by new stores opened over the last 12 months, the acquisition of affiliate stores, and a slight increase in sales in the distribution network.

Excluding the 1.1% decline due to the drop in forest product prices, same-store sales increased by 1.4% this quarter.

**Annual Sales Growth of Same-Store Sales  
Last nine quarters**



**Operating income up \$16.8 million, or 11.6%**

Operating income reached \$161.8 million in the second quarter of 2007, an increase of \$16.8 million or 11.6% over 2006. EBITDA margin rose from 10.8 % in 2006 to 11.0% in 2007. The increase in operating income can be mainly attributed to the primary effects of additional measures taken immediately after the publication of our first quarter results to support earnings growth, to the contributions of acquisitions in the corporate and franchise store segment, including synergies related to these acquisitions, and to continued robust performance in the distribution segment. The latter reflects significant efforts made to expand the distribution network and improve its efficiency, resulting in an increase of 20 basis points in the segment's operating income over the quarter. A gain of \$2.4 million recorded on the application of a new accounting standard for financial instruments also added to the increase in operating income for the quarter (for more information about this new standard, please see page 18 of this report). During this quarter, major efforts were also made to stimulate sales and increase in-store traffic, with promotional activities throughout the RONA network.

**Interest, depreciation and amortization**

Interest expense in the second quarter 2007 was \$9.0 million, compared to \$6.4 million in 2006. This is due partly to increased debt resulting from our expansion, including the recent acquisition of Noble Trade, and the increase in interest rates.

Depreciation and amortization in the second quarter 2007 was \$22.4 million, an increase of \$5.0 million over 2006. This stems from acquisitions, investments in our distribution infrastructure, new corporate store start-ups, renovation of existing corporate stores, and the ongoing improvement of our information systems.

**Income taxes**

Income taxes in the second quarter amounted to \$41.8 million, for an effective tax rate of 32.1%. Last year, our taxes were \$39.2 million, for an effective rate of 32.4%.

## Net earnings

Net earnings for the second quarter 2007 stood at \$86.2 million, or \$0.74 per share, diluted, compared to \$80.0 million in 2006 or \$0.69 per share, diluted. This represents an increase of 7.7% in net earnings and 7.2% in diluted earnings per share. The factors that contributed to the increase in operating income also apply to the change in net earnings, but the gain in operating income was reduced by an increase in financial expenses and depreciation and amortization related to the expansion of the network. This is due to the fact that some recent investments have not yet reached their full potential contribution to the Company's consolidated results. Despite slower growth in the renovation and construction industry, RONA is pursuing investments in several development projects that will ensure a stronger position in the next few years.

## SEGMENT ANALYSIS FOR THE SECOND QUARTER 2007

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

**Table 2**  
**RONA: Key segment figures for the quarter ended July 1, 2007**

(in thousands of dollars)	Second quarter		\$ Change	% Change
	2007	2006	over 2006	over 2006
<b>Segment sales</b>				
Corporate and franchise stores	<b>1,136,313</b>	1,016,606	119,707	11.8%
Distribution	<b>705,671</b>	668,245	37,426	5.6%
<b>Total</b>	<b>1,841,984</b>	1,684,851	157,133	9.3%
<b>Intersegment sales and royalties</b>				
Corporate and franchise stores	<b>(3,960)</b>	(3,747)	(213)	5.7%
Distribution	<b>(368,924)</b>	(335,095)	(33,829)	10.1%
<b>Total</b>	<b>(372,884)</b>	(338,842)	(34,042)	10.0%
<b>Sales</b>				
Corporate and franchise stores	<b>1,132,353</b>	1,012,859	119,494	11.8%
Distribution	<b>336,747</b>	333,150	3,597	1.1%
<b>Total</b>	<b>1,469,100</b>	1,346,009	123,091	9.1%
<b>Operating income</b>				
Corporate and franchise stores	<b>141,095</b>	125,430	15,665	12.5%
Distribution	<b>20,683</b>	19,585	1,098	5.6%
<b>Total</b>	<b>161,778</b>	145,015	16,763	11.6%
<b>EBITDA margin</b>				
Corporate and franchise stores	<b>12.5 %</b>	12.4 %	–	0.1%
Distribution	<b>6.1 %</b>	5.9 %	–	0.2%
<b>Total</b>	<b>11.0 %</b>	10.8 %	–	0.2%

**Corporate and franchise stores: sales up 11.8%, operating income up 12.5%**

Retail sales in the corporate and franchise store sector increased by \$119.5 million, or 11.8%, in the second quarter 2007, rising to \$1,132.4 million. The acquisition of Noble Trade at the beginning of the second quarter 2007 and the 2006 acquisitions of Curtis Lumber and Mountain Building Centres were an important growth factor. The acquisition of affiliate dealer-owners also contributed to sales growth. Organic sales growth benefited from the contributions of corporate and franchise stores opened in the last 12 months in Victoria/Langford, British Columbia, Spruce Grove and Leduc, Alberta, Winkler and Winnipeg, Manitoba, Barrie and Scarborough, Ontario, and Charlemagne and Rimouski, Quebec. Excluding the 1.1% decline due to the drop in average forest product prices, same-store sales increased 1.4% this quarter.

Operating income from retail activities increased to \$141.1 million, compared to \$125.4 million in the second quarter 2006. This \$15.7 million increase, or 12.5%, stems mainly from recent acquisitions, including the Noble Trade plumbing specialty chain of stores, acquired at the beginning of the quarter, and the building materials specialist Curtis Lumber, acquired in 2006. The increase can also be attributed to additional measures taken at the beginning of the quarter to improve operational efficiency, to acquisition synergies, and to the acquisition of affiliate stores. A gain of \$1.6 million recorded on the application of a new accounting standard for financial instruments also added to the improvement in operating income this quarter.

The segment's EBITDA margin increased by 10 basis points as well, from 12.4% in the second quarter 2006 to 12.5% in the second quarter 2007. The increase can be partly attributed to efficiency gains and a favourable product mix during the quarter. Paint, hardware, plumbing and ventilation products, along with kitchen and seasonal items, did particularly well this quarter. Major efforts were also made over the quarter to stimulate sales and increase in-store traffic by introducing promotional activities throughout the RONA network.

**Distribution: sales up 1.1%, operating income up 5.6%**

Distribution sales, including intersegment sales, refer to all sales made by the RONA distribution infrastructure to corporate, franchise or affiliate stores. Distribution sales net of intersegment sales include only sales to affiliate and franchise stores, net of RONA's share where applicable.

Distribution sales increased by 5.6% to \$705.7 million in the second quarter of 2007, including the 0.8% decline due to the drop in average forest product prices. This increase reflects the expansion of the network and the performance of the affiliate store network. Affiliates recruited in 2006 and early 2007 are gradually integrating into the RONA network and supporting the growth of distribution sales.

Net of intersegment transactions, distribution sales increased by 1.1% to \$336.7 million in 2007. Between the two comparison years, we acquired the majority or all of the shares of several affiliates in order to strengthen RONA's footprint in certain areas of the country. Taken in isolation, these acquisitions resulted in an increase in intersegment sales (which increased by 10.1% in the second quarter 2007) and a reduction in net sales.

Distribution activities brought in operating income of \$20.7 million in second quarter 2007, compared to \$19.6 million for the same quarter in 2006. This represents an increase of \$1.1 million or 5.6%. A gain of \$0.8 million recorded in relation to the application of a new accounting standard for financial instruments also added to the improvement in operating income this quarter.

The EBITDA margin increased from 5.9% in the second quarter 2006 to 6.1% in 2007. This increase of 20 basis points reflects sustained improvements in the efficiency of the Company's distribution operations, partly due to the expansion of the network, improvements in purchasing conditions, the

addition of high-performance infrastructure that reduced expenses in small satellite distribution centres, and recent efficiency improvement measures.

## **ANALYSIS OF CONSOLIDATED RESULTS FOR THE FIRST HALF OF 2007**

### **Sales up \$202.8 million, or 9.5%**

Consolidated sales for the first half of 2007 stood at \$2,347.6 million, or 9.5% more than the \$2,144.8 million recorded in 2006. This growth can be mainly attributed to acquisitions and store openings. Excluding the contributions of major acquisitions like Noble Trade, Chester Dawe, Curtis Lumber, Matériaux Coupal and Mountain Building Centres, consolidated sales increased 4.7%. This organic growth stems from sales generated by new stores opened in the last 12 months, affiliate stores acquired by RONA, and a slight increase in distribution network sales.

Same-store sales increased by 0.2% over the twenty-six-week period ended July 1, 2007. Excluding the 1.1% decline due to the drop in average forest product prices, same-store sales increased by 1.3% over the period.

### **Operating income up \$15.0 million, or 8.0%**

RONA's operating income was \$202.6 million in the first half of 2007, up \$15.0 million, or 8.0%, over 2006. The increase in operating income can be mainly attributed to the primary effects of additional measures taken immediately after publication of our first quarter results to support earnings growth, to the contributions of acquisitions in the corporate and franchise store segment, including synergies related to these acquisitions, and to continued robust performance in the distribution segment. A gain of \$3.6 million recorded on the application of a new accounting standard for financial instruments also added to the improvement in operating income for the half (for more information about this new standard, please see page 18 of this report).

The EBITDA margin declined from 8.7% in 2006 to 8.6% in 2007. This figure was affected by the stronger seasonal effect in the first quarter 2007. In addition, the margin related to contributions from acquisitions, including affiliate stores, was lower than the margin recorded in 2006. During the first half, significant efforts were also made to stimulate sales and in-store traffic, with promotional activities throughout the RONA network. These factors were counterbalanced by efficiency improvement measures and a favourable product mix during the second quarter.

### **Interest, depreciation and amortization**

Interest expense in the first half of 2007 was \$16.1 million, compared to \$11.4 million in 2006. This increase is due in part to increased debt resulting from our expansion, including the recent acquisition of Noble Trade, as well as the increase in interest rates.

Depreciation and amortization for the first half of 2007 stood at \$44.0 million, an increase of \$10.9 million over 2006, stemming from acquisitions, investments in our distribution infrastructure, new corporate store start-ups, renovation of existing corporate stores, and the ongoing improvement of our information systems.

### **Income taxes**

Income taxes in the first half amounted to \$45.5 million, for an effective tax rate of 31.9%. Last year, income taxes were \$45.8 million, for an effective rate of 32.0%.

### **Net earnings**

Net earnings for the first half of 2007 stood at \$95.2 million, or \$0.82 per share, diluted, compared to \$96.4 million in 2006, or \$0.83 per share, diluted. This represents a decrease of 1.2% in net earnings and

diluted earnings per share. The decline in the first quarter of 2007, due to stronger seasonal variations and unfavourable weather conditions, was almost completely compensated for by growth posted in the second quarter. Certain investments made to expand the RONA network are not yet fully contributing to the Company's results despite having generated significant depreciation and amortization and interest expenses. In spite of slower growth in the renovation and construction industry, RONA is pursuing investments in several development projects that will ensure a stronger position over the next few years.

#### SEGMENT ANALYSIS FOR THE FIRST HALF OF 2007

**Table 3**  
**RONA: Key segment figures, first half ended July 1, 2007**

(in thousands of dollars)	2007	2006	\$ Change over 2006	% Change over 2006
<b>Segment sales</b>				
Corporate and franchise stores	<b>1,783,508</b>	1,591,663	191,845	12.1%
Distribution	<b>1,195,199</b>	1,115,134	80,065	7.2%
<b>Total</b>	<b>2,978,707</b>	2,706,797	271,910	10.0%
<b>Intersegment sales and royalties</b>				
Corporate and franchise stores	<b>(6,280)</b>	(5,790)	(490)	8.5%
Distribution	<b>(624,831)</b>	(556,212)	(68,619)	12.3%
<b>Total</b>	<b>(631,111)</b>	(562,002)	(69,109)	12.3%
<b>Sales</b>				
Corporate and franchise stores	<b>1,777,228</b>	1,585,873	191,355	12.1%
Distribution	<b>570,368</b>	558,922	11,446	2.0%
<b>Total</b>	<b>2,347,596</b>	2,144,795	202,801	9.5%
<b>Operating income</b>				
Corporate and franchise stores	<b>164,482</b>	152,132	12,350	8.1%
Distribution	<b>38,146</b>	35,464	2,682	7.6%
<b>Total</b>	<b>202,628</b>	187,596	15,032	8.0%
<b>EBITDA margin</b>				
Corporate and franchise stores	<b>9.3 %</b>	9.6 %	–	(0.3%)
Distribution	<b>6.7 %</b>	6.3 %	–	0.4%
<b>Total</b>	<b>8.6 %</b>	8.7 %	–	(0.1%)

#### **Corporate and franchise stores: sales up 12.1%, operating income up 8.1%**

Retail sales in the corporate and franchise stores segment increased by \$191.4 million, or 12.1%, in the first half of 2007, reaching \$1,777.2 million. The acquisition of Noble Trade at the beginning of the second quarter of 2007 and the 2006 acquisitions of Chester Dawe, Matériaux Coupal, Curtis Lumber and Mountain Building Centres were a major growth factor. The acquisition of affiliate dealer-owners also contributed to sales growth. Organic sales growth benefited from the contributions of corporate and franchise stores opened during the last 12 months in Victoria/Langford, British Columbia, Spruce Grove and Leduc, Alberta, Winkler and Winnipeg, Manitoba, Barrie and Scarborough, Ontario, and Charlemagne and Rimouski, Quebec. Excluding the 1.1% decline due to the drop in average forest product prices, same-store sales increased by 1.3%.

Operating income from retail activities stood at \$164.5 million, compared to \$152.1 million in the first half of 2006. This increase of \$12.4 million, or 8.1%, stems mainly from recent acquisitions, including the plumbing specialty chain Noble Trade and numerous acquisitions in 2006. It can also be attributed to additional measures taken at the beginning of the second quarter to improve operational efficiency, to acquisitions synergies, and to the acquisition of affiliate stores. A gain of \$2.4 million recorded on the application of a new accounting standard related to financial instruments also added to the increase in operating income.

The segment's EBITDA margin stood at 9.3%, compared to 9.6% in the first half of 2006. The decline is largely due to seasonal and temporary factors that affected the first quarter results in 2007. In addition, the margin related to the contribution from acquisitions, including affiliate stores, was lower than the margin achieved in 2006. During the first half, major efforts were also made to stimulate sales and in-store traffic, with promotional activities throughout the RONA network. These factors were counterbalanced by improved efficiency and a better product mix during the second quarter of 2007. Hardware, paint, plumbing and ventilation products, as well as kitchen and seasonal items, did particularly well in the second quarter.

**Distribution: sales up 2.0%, operating income up 7.6%**

Sales in the distribution segment increased by 7.2%, including the 0.8% decline due to the drop in average forest product prices in the first quarter 2007, totalling \$1,195.2 million. This growth reflects the expansion of the network and the performance of the affiliate stores. Affiliates recruited in 2006 and early 2007 are gradually integrating into the RONA network and supporting the growth of distribution sales.

Net of intersegment sales, distribution sales increased by 2.0%, totalling \$570.4 million in 2007.

Between the two comparison years, we acquired the majority or all of the shares of several affiliates, in order to strengthen RONA's footprint in certain areas of the country. Taken in isolation, these acquisitions resulted in an increase in intersegment sales (which increased by 12.3% in the first half of 2007) and a reduction in net sales.

Distribution activities produced operating income of \$38.1 million in the first half of 2007, compared to \$35.5 million in 2006. This represents an increase of \$2.7 million, or 7.6%. A gain of \$1.2 million recorded on the application of a new accounting standard for financial instruments also added to the increase in operating income. The EBITDA margin rose from 6.3% in the first half of 2006 to 6.7% in 2007. This increase of 40 basis points reflects sustained improvements in the efficiency of the Company's distribution operations, partly due to the expansion of the network, improvements in purchasing conditions, the addition of high-performance infrastructure that reduced expenses in small satellite distribution centres, and recent efficiency improvement measures.

**CASH FLOWS AND FINANCIAL POSITION**

Operations generated \$111.5 million in the second quarter of 2007, compared to \$101.3 million in the same quarter of 2006. Including working capital items, operations generated \$169.8 million, compared to \$173.7 million in 2006. This decrease is primarily coming from the increase in inventories from acquisitions and new stores.

During the second quarter of 2007, \$65.4 million was invested in fixed assets. These investments related to the expansion of our retail network, namely construction of new stores as well as repairs, renovations and upgrades for existing stores to reflect our new concepts. Significant investments were also approved for the continuous improvement of information systems in order to increase our operational efficiency.

Table 4 presents a synopsis of the Company's contractual obligations on July 1, 2007, including off-balance sheet operating leases used in the normal course of business. The Company has also concluded off-balance sheet arrangements such as inventory repurchase agreements and guaranteed mortgage loans for certain customers (arrangements which do not appear in table 4). For a detailed description of these arrangements, please see note 5 in the interim consolidated financial statements.

**Table 4**  
**RONA: Contractual obligations by term**  
**(July 1, 2007)**

Contractual obligations	Payments by term (thousands of dollars)				
	Total	Less than 1 year	1-2 years	3-4 years	5 years or more
Long-term debt	677,712	4,137	9,529	9,826	654,220
Obligations under capital leases	18,089	7,437	8,154	2,346	152
Operating and other leases	1,292,474	113,893	219,902	202,642	756,037
Other long-term obligations	83,732	36,238	34,308	11,011	2,175
<b>Total</b>	<b>2,072,007</b>	<b>161,705</b>	<b>271,893</b>	<b>225,825</b>	<b>1,412,584</b>

**Table 5**  
**RONA: Shares outstanding on**  
**August 3, 2007**

Common shares	115,399,031
Unexercised options	2,944,702
<b>Total</b>	<b>118,343,733</b>

RONA's balance sheet remains strong. As of July 1, 2007, the total debt-to-capital ratio was 37.9%, compared with 27.9% at the close of the second quarter in 2006.

RONA's equity/asset ratio stood at 46.7% at the end of the second quarter of 2007, compared with 49.8 % a year ago.

The Company's operations produce significant cash flows. With relatively low debt and rates fixed for 10 years on our long-term debt, we have significant liquidity and can access some \$250 million of additional credit at competitive rates. Last July, we extended the maturity date of our revolving credit by one year, from October 6, 2011, to October 6, 2012. Our resources are sufficient to continue our development along our four vectors of growth: sales growth in our existing network, construction of new corporate and franchise stores, recruitment of new affiliate stores, and acquisitions.

In 2007, our capital program will be approximately \$240 million. Of this sum, around \$175 million will be allocated to the construction, upgrade or renovation of big-box, proximity and specialized stores. Approximately \$25 million will be allocated to expansion of the distribution network and some \$40 million will go to the continuous improvement of our information systems.

## QUARTERLY RESULTS

**Table 6**  
**RONA: Consolidated quarterly financial results**  
**(in millions of dollars, except earnings per share)**

	2007		2006				2005		
	Q2	Q1	Q4*	Q3	Q2	Q1	Q4	Q3	Q2
Sales	<b>1,469.1</b>	<b>878.5</b>	1,141.3	1,265.8	1,346.0	798.8	1,008.6	1,109.3	1,200.5
Operating income	<b>161.8</b>	<b>40.9</b>	86.7	109.6	145.0	42.6	73.9	98.1	124.9
Net earnings	<b>86.2</b>	<b>9.0</b>	38.1	56.1	80.0	16.4	37.6	53.0	70.4
Earnings per share (\$)	<b>0.75</b>	<b>0.08</b>	0.33	0.49	0.70	0.14	0.33	0.46	0.62
Diluted earnings per share (\$)	<b>0.74</b>	<b>0.08</b>	0.33	0.48	0.69	0.14	0.32	0.46	0.61

\* Q4 2006 consisted of 14 weeks. All others were 13 weeks.

As mentioned at the end of 2006, RONA's sector of activity varies greatly from one quarter to another. Sales in the first quarter are always lower than in the three others because of the low level of renovation and building activity in winter. Moreover, unfavourable weather conditions can have a significant impact on sales. With the growth of our activities in corporate and franchise stores, as well as a higher proportion of building materials products, the seasonal effect of the first quarter has been greater in 2007 than in the previous year. The results posted in the second quarter of 2007 show once again the strong seasonal effect related to the renovation industry and the scope of the fixed costs that must be absorbed in the first quarter of the year. With sales nearly 70% higher in the second quarter than the first, net earnings are nearly 10 times as high.

## OUTLOOK

As described in the 2006 MD&A, RONA's long-term growth benefits from favourable structural factors. Canada's working population (age 25 to 55) is devoting more and more time to home renovations and gardening projects. In addition, the all-important baby boomers, who account for 25% of the population, are arriving at their anticipated retirement in better physical and financial shape than any preceding generation. In Canada, the existing housing stock is also aging: over 80% of homes are more than 15 years old and will require major maintenance work in the near future. Moreover, new housing starts, housing resales and the average selling price of homes have all seen big increases in the last three years. As a result, the Canadian market is looking at many new owners with higher borrowing power, representing a highly favourable environment for the home improvement business.

For the last few quarters, the American economy has been experiencing a major correction in the real estate market. Housing starts and resales have dropped significantly, and the average price of homes has stopped increasing. The situation is very different in Canada, where all of RONA's sales are based. The drop in housing starts is much less pronounced than in the United States, and resales are still climbing despite CMHC predictions of a drop. The number of housing starts remains at historically high levels, and resales have reached new records, boosting housing prices, which have risen more than 10% since the beginning of the year.

A number of economists believe that the Canadian economy will grow faster than the American economy in 2007 and 2008, as long as economic activities related to natural resources remain strong and there is no major slowdown in housing construction and resales. Inflationary pressure, especially in Western Canada, recently induced the Bank of Canada to raise interest rates, and the trend seems likely to continue to rise over the next quarters, which could have a temporary impact on consumer confidence in Canada.

Recent data on housing resales still support a strong demand for products and services related to the renovation market, with a growth rate that is nevertheless significantly lower than growth in recent years. This explains why growth in same-store sales was weaker at the beginning of the year for major players in the industry. Management believes that sales contributions from existing stores may be weaker than expected this year. Given the effect of this situation on same-store earnings since the beginning of the year, the Company took additional measures to stimulate sales and improve operational efficiency at the beginning of the second quarter. These include a more dynamic approach to private brand product sales, the introduction of new customer loyalty measures, and new operational efficiency measures. These activities have already improved results in the second quarter and we are confident that they will continue to prove their worth in the coming quarters.

Growth in these quarters is expected to come from market consolidation and the recruitment of more dealer-owners, from the addition of new stores and from acquisitions. Although recruitment is down somewhat from this date last year, management remains confident of achieving its recruitment goal of about \$200 million. We still plan to open 10 new stores in 2007, with four already opened since the beginning of the year. In terms of acquisitions, we are currently studying 15 opportunities, and management is confident that a number of these opportunities could materialize.

## **RISKS AND UNCERTAINTIES**

There have been no significant changes to the Company's principal risks and uncertainties during the second quarter of 2007. Please refer to the 2006 MD&A for an exhaustive list of the Company's risks and uncertainties.

## **CHANGES IN ACCOUNTING POLICIES**

On January 1, 2007, in accordance with applicable transitional provisions, the Company retroactively adopted, without restatement of prior period financial statements, the following new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook:

### **Financial instruments**

Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3861, *Financial Instruments – Disclosure and Presentation* describe standards for the classification, recognition, measurement, disclosure and presentation of financial instruments (including derivatives) and nonfinancial derivatives in the financial statements.

The adoption of these new standards resulted in the following changes in the classification and measurement of the Company's financial instruments, previously recorded at cost:

- 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. This change had no impact on the Company's consolidated financial statements.
- Accounts receivable and long-term loans and advances and redeemable preferred shares (included in investments) are classified as “loans and receivables” and are recorded 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 all allowances for doubtful accounts. Subsequent revaluations of long-term loans and advances and redeemable preferred shares are recorded at amortized cost using the effective interest method less any amortization. This change had no impact on the Company's consolidated financial statements.
- Bank loans and accounts payable and accrued liabilities are classified as “other financial liabilities.” They are initially measured at fair value and subsequent revaluations are recorded at amortized cost using the effective interest method. This change had no impact on the Company's consolidated financial statements.

- Long-term debt is classified as “other financial liabilities.” It is measured at amortized cost, which corresponds to initial measurement plus accumulated amortization of financing costs. Initial measurement corresponds to the principal amount of the debt less applicable financing costs. This change resulted in a decrease of \$4.8 million in deferred financing costs previously included in other assets, a decrease of \$4.9 million in long-term debt and an increase of \$46,000 (\$31,000, net of future income taxes) in opening retained earnings.

The Company also adopted the following accounting policies:

- Transaction costs related to other financial liabilities are recorded as a reduction in the book value 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 at December 29, 2002 when these hybrid instruments are not recorded as held for trading and remain 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 recorded in earnings. The Company has not identified any embedded derivatives to be separated other than derivatives embedded in purchase contracts concluded in foreign countries 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 opted to separate the embedded derivatives. This policy change resulted in an increase in current liabilities of \$2.4 million and a decrease in retained earnings of \$2.4 million (\$1.6 million net of future income taxes) at January 1, 2007. For the thirteen-week and twenty-six-week periods ended July 1, 2007, this policy change resulted in an increase in earnings before interest, depreciation and amortization, income taxes and non-controlling interest of \$3.0 million and \$4.2 million.

The Company uses derivative financial instruments to manage foreign exchange risk. The Company does not use derivative financial instruments for speculative or trading purposes. The derivatives are classified as “liabilities held for trading” and are measured at fair value with the changes in fair value recorded in earnings. For the thirteen-week and twenty-six-week periods ended July 1, 2007, this resulted in a decrease in earnings before interest, depreciation and amortization, income taxes and non-controlling interest of \$0.6 million.

### **Comprehensive income**

Section 1530, *Comprehensive Income* describes standards for the presentation of comprehensive income and its components. Comprehensive income is the change in shareholders’ equity, which results from transactions and events from sources other than the Company’s shareholders. The adoption of the new recommendation had no impact on the Company’s consolidated financial statements.

### **Equity**

Section 3251, *Equity* describes standards for the presentation of equity and changes in equity in the period. The adoption of the new recommendation had no impact on the Company’s consolidated financial statements.

### **Accounting changes**

On January 1, 2007, in accordance with applicable transitional provisions, the Company adopted the new recommendations of CICA Handbook, Section 1506, *Accounting Changes*. This section establishes the criteria for changing accounting policies together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

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

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

**SIGNIFICANT ACCOUNTING ESTIMATES**

No significant changes have been noted since the publication of the 2006 MD&A.

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

During the quarter ended July 1, 2007, no change to internal control over financial reporting has occurred that has materially affected, or is reasonably likely to have materially affected, such control.

**FORWARD-LOOKING STATEMENTS**

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

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

Investors and others are cautioned that undue reliance should not be placed on any forward-looking statements. For more information on the risks, uncertainties and assumptions that would cause the Company's actual results to differ from current expectations, please also refer to the Company's public filings available at [www.sedar.com](http://www.sedar.com) and [www.rona.ca](http://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 2006 Annual Information Form.

The forward-looking statements in this MD&A reflect the Company's expectations as of August 7, 2007, and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

**ADDITIONAL INFORMATION**

This MD&A was prepared on August 7, 2007. The reader will find additional information concerning RONA, including the Company's Annual Information Form, on the Company's website at [www.rona.ca](http://www.rona.ca) or on SEDAR at [www.sedar.com](http://www.sedar.com).



Claude Guévin, CA  
Executive Vice-President  
and Chief Financial Officer



Robert Dutton  
President and Chief Executive Officer

**RONA inc.****Consolidated Earnings**

For the thirteen-week and twenty-six-week periods ended July 1, 2007 and June 25, 2006

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

	Second Quarter		Year-to-date	
	2007	2006	2007	2006
<b>Sales</b>	<b>\$ 1,469,100</b>	\$ 1,346,009	<b>\$ 2,347,596</b>	\$ 2,144,795
Earnings before the following items	<b>161,778</b>	145,015	<b>202,628</b>	187,596
Interest on long-term debt	<b>8,163</b>	5,328	<b>14,410</b>	9,622
Interest on bank loans	<b>858</b>	1,024	<b>1,642</b>	1,738
Depreciation and amortization	<b>22,412</b>	17,419	<b>44,017</b>	33,069
	<b>31,433</b>	23,771	<b>60,069</b>	44,429
Earnings before income taxes and non-controlling interest	<b>130,345</b>	121,244	<b>142,559</b>	143,167
Income taxes	<b>41,797</b>	39,238	<b>45,475</b>	45,775
Earnings before non-controlling interest	<b>88,548</b>	82,006	<b>97,084</b>	97,392
Non-controlling interest	<b>2,385</b>	1,994	<b>1,894</b>	1,000
<b>Net earnings</b>	<b>\$ 86,163</b>	\$ 80,012	<b>\$ 95,190</b>	\$ 96,392
<b>Net earnings per share (Note 10)</b>				
Basic	<b>\$ 0.75</b>	\$ 0.70	<b>\$ 0.83</b>	\$ 0.84
Diluted	<b>\$ 0.74</b>	\$ 0.69	<b>\$ 0.82</b>	\$ 0.83

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

**RONA inc.**  
**Consolidated Retained Earnings**  
**Consolidated Contributed Surplus**

For the twenty-six-week periods ended July 1, 2007 and June 25, 2006  
(Unaudited, in thousands of dollars)

	<u>2007</u>	<u>2006</u>
<b>Consolidated Retained Earnings</b>		
Balance, beginning of period, as previously reported	\$ 709,467	\$ 518,883
Financial instruments - recognition and measurement (Note 2)	(1,589)	-
Restated balance, beginning of period	<u>707,878</u>	<u>518,883</u>
Net earnings	<u>95,190</u>	<u>96,392</u>
<b>Balance, end of period</b>	<b>\$ 803,068</b>	<b>\$ 615,275</b>
<b>Consolidated Contributed Surplus</b>		
Balance, beginning of period	\$ 9,182	\$ 6,618
Compensation cost relating to stock-based compensation plans	1,008	1,098
Exercise of stock options	(219)	(168)
Gain on disposal of the Company's common shares by a joint venture, net of income taxes of \$59	-	251
<b>Balance, end of period</b>	<b>\$ 9,971</b>	<b>\$ 7,799</b>

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

**RONA inc.****Consolidated Cash Flows**

For the thirteen-week and twenty-six-week periods ended July 1, 2007 and June 25, 2006

(Unaudited, in thousands of dollars)

	Second Quarter		Year-to-date	
	2007	2006	2007	2006
<b>Operating activities</b>				
Net earnings	\$ 86,163	\$ 80,012	\$ 95,190	\$ 96,392
Non-cash items				
Depreciation and amortization	22,412	17,419	44,017	33,069
Derivative financial instruments	(2,406)	-	(3,630)	-
Future income taxes	1,802	776	(2,479)	(575)
Net gain on disposal of assets	(241)	(1,322)	(181)	(1,341)
Compensation cost relating to stock-based compensation plans	537	670	1,008	1,098
Non-controlling interest	2,385	1,994	1,894	1,000
Other items	836	1,742	1,655	1,336
	<b>111,488</b>	<b>101,291</b>	<b>137,474</b>	<b>130,979</b>
Changes in working capital items	<b>58,306</b>	<b>72,406</b>	<b>(99,237)</b>	<b>(16,253)</b>
Cash flows from operating activities	<b>169,794</b>	<b>173,697</b>	<b>38,237</b>	<b>114,726</b>
<b>Investing activities</b>				
Business acquisitions (Note 3)	(167,638)	(27,791)	(170,661)	(113,164)
Advances to joint ventures and other advances	615	(215)	4,640	(397)
Other investments	(588)	-	(588)	-
Fixed assets	(65,364)	(48,454)	(108,144)	(86,487)
Other assets	(1,738)	(3,066)	(3,231)	(4,819)
Disposal of assets	1,650	3,650	2,920	4,840
Cash flows from investing activities	<b>(233,063)</b>	<b>(75,876)</b>	<b>(275,064)</b>	<b>(200,027)</b>
<b>Financing activities</b>				
Bank loans and revolving credit	122,534	(96,889)	245,572	109,232
Other long-term debt	11	420	933	1,663
Repayment of other long-term debt and redemption of preferred shares	(4,811)	(3,303)	(14,553)	(8,347)
Issue of common shares	1,092	1,934	3,312	3,077
Issue of equity securities to non-controlling interest	750	735	750	735
Cash flows from financing activities	<b>119,576</b>	<b>(97,103)</b>	<b>236,014</b>	<b>106,360</b>
<b>Net increase (decrease) in cash</b>	<b>56,307</b>	<b>718</b>	<b>(813)</b>	<b>21,059</b>
Cash, beginning of period	1,366	24,461	58,486	4,120
Cash, end of period	\$ 57,673	\$ 25,179	\$ 57,673	\$ 25,179
<b>Supplementary information</b>				
Interest paid	\$ 4,655	\$ 4,858	\$ 11,323	\$ 9,653
Income taxes paid	\$ 25,218	\$ 25,015	\$ 62,680	\$ 58,734

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

**RONA inc.**  
**Consolidated Balance Sheets**

July 1, 2007, June 25, 2006 and December 31, 2006  
(In thousands of dollars)

	2007 July 1 (unaudited)	2006 June 25 (unaudited)	2006 December 31
<b>Assets</b>			
Current assets			
Cash	\$ 57,673	\$ 25,179	\$ 58,486
Accounts receivable	328,328	305,410	205,808
Income taxes receivable	7,476	7,695	-
Inventory	958,839	841,987	790,496
Prepaid expenses	51,432	31,909	23,454
Derivative financial instruments (Note 2)	1,809	-	-
Future income taxes	14,839	9,823	10,859
	<u>1,420,396</u>	<u>1,222,003</u>	<u>1,089,103</u>
Investments	14,559	17,572	17,642
Fixed assets	716,237	500,170	634,131
Goodwill	438,609	301,289	316,558
Trademarks	3,593	-	1,380
Other assets	25,589	19,120	30,314
Future income taxes	20,364	20,677	19,254
	<u>\$ 2,639,347</u>	<u>\$ 2,080,831</u>	<u>\$ 2,108,382</u>
<b>Liabilities</b>			
Current liabilities			
Bank loans	\$ 26,861	\$ 34,387	\$ 21,221
Accounts payable and accrued liabilities	583,021	585,607	394,103
Income taxes payable	-	-	7,242
Derivative financial instruments (Note 2)	562	-	-
Future income taxes	2,442	710	3,314
Instalments on long-term debt	37,474	19,808	29,511
	<u>650,360</u>	<u>640,512</u>	<u>455,391</u>
Long-term debt	687,131	346,913	455,310
Other long-term liabilities	22,190	17,413	20,386
Future income taxes	21,303	13,871	19,402
Non-controlling interest	26,076	24,964	23,527
	<u>1,407,060</u>	<u>1,043,673</u>	<u>974,016</u>
<b>Shareholders' equity</b>			
Capital stock (Note 4)	419,248	414,084	415,717
Retained earnings	803,068	615,275	709,467
Contributed surplus	9,971	7,799	9,182
	<u>1,232,287</u>	<u>1,037,158</u>	<u>1,134,366</u>
	<u>\$ 2,639,347</u>	<u>\$ 2,080,831</u>	<u>\$ 2,108,382</u>

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

## **RONA inc.**

### **Notes to Interim Consolidated Financial Statements**

July 1, 2007 and June 25, 2006

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

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#### **1. Basis of presentation**

The accompanying unaudited interim consolidated financial statements are in accordance with Canadian generally accepted accounting principles for interim financial statements and do not include all the information required for complete financial statements. They are also consistent with the policies outlined in the Company's audited financial statements for the years ended December 31, 2006. The interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2006. The interim operating results do not necessarily reflect the results for the full fiscal year. Accordingly, the comparative balance sheet as at June 25, 2006 is also included to reflect seasonal fluctuations that characterize the hardware, renovation and home garden industry. When necessary, the financial statements include amounts based on estimated information and management's best judgments. Certain comparative figures have been reclassified to conform with the presentation adopted in the current period.

#### **2. Changes in accounting policies**

On January 1, 2007, in accordance with applicable transitional provisions, the Company retroactively adopted without restatement of prior period financial statements the following new recommendations of the Canadian Institute of Chartered Accountants (CICA) Handbook:

##### **Financial instruments**

Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3861, *Financial Instruments – Disclosure and Presentation* describe standards for the classification, recognition, measurement, disclosure and presentation of financial instruments (including derivatives) and non-financial derivatives in the financial statements.

The adoption of these new standards resulted in the following changes in the classification and measurement of the Company's financial instruments, previously recorded at cost:

- 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. This change had no impact on the Company's consolidated financial statements.
- Accounts receivable and long-term loans and advances and redeemable preferred shares (included in investments) are classified as "loans and receivables" and are recorded 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 all allowances for doubtful accounts. Subsequent revaluations of long-term loans and advances and redeemable preferred shares are recorded at amortized cost using the effective interest method less any amortization. This change had no impact on the Company's consolidated financial statements.
- Bank loans and accounts payable and accrued liabilities are classified as "other financial liabilities". They are initially measured at fair value and subsequent revaluations are recorded at amortized cost using the effective interest method. This change had no impact on the Company's consolidated financial statements.

## **RONA inc.**

### **Notes to Interim Consolidated Financial Statements**

July 1, 2007 and June 25, 2006

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

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#### **2. Changes in accounting policies (continued)**

- Long-term debt is classified as “other financial liabilities”. It is measured at amortized cost which corresponds to initial measurement plus accumulated amortization of financing costs. Initial measurement corresponds to the principal amount of the debt less applicable financing costs. This change resulted in a decrease of \$4,824 in deferred financing costs previously included in other assets, a decrease of \$4,870 in long-term debt and an increase of \$46 (\$31, net of future income taxes) in opening retained earnings.

The Company also adopted the following accounting policies:

- Transaction costs related to other financial liabilities are recorded as a reduction in the book value 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 at December 29, 2002 when these hybrid instruments are not recorded as held for trading and remain 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 recorded in earnings. The Company has not identified any embedded derivatives to be separated other than derivatives embedded in purchase contracts concluded in foreign countries 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 opted to separate the embedded derivatives. This policy change resulted in an increase in current liabilities of \$2,382 and a decrease in retained earnings of \$2,382 (\$1,620 net of future income taxes) at January 1, 2007. For the thirteen and twenty-six-week periods ended July 1, 2007 this policy change resulted in an increase in earnings before interest, depreciation and amortization, income taxes and non-controlling interest of \$2,967 and \$4,191.

The Company uses derivative financial instruments to manage foreign exchange risk. The Company does not use derivative financial instruments for speculative or trading purposes. The derivatives are classified as “liabilities held for trading” and are measured at fair value with the changes in fair value recorded in earnings. For the thirteen and twenty-six-week periods ended July 1, 2007, this resulted in a decrease in earnings before interest, depreciation and amortization, income taxes and non-controlling interest of \$562.

#### **Comprehensive income**

Section 1530, *Comprehensive Income* describes standards for the presentation of comprehensive income and its components. Comprehensive income is the change in shareholders’ equity, which results from transactions and events from sources other than the Company’s shareholders. The adoption of the new recommendation had no impact on the Company’s consolidated financial statements.

## RONA inc.

### Notes to Interim Consolidated Financial Statements

July 1, 2007 and June 25, 2006

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

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## 2. Changes in accounting policies (continued)

### Equity

Section 3251, *Equity* describes standards for the presentation of equity and changes in equity in the period. The adoption of the new recommendation had no impact on the Company's consolidated financial statements.

### Accounting changes (Note 11)

On January 1, 2007, in accordance with applicable transitional provisions, the Company adopted the new recommendations of CICA Handbook, Section 1506, *Accounting Changes*. This section establishes the criteria for changing accounting policies together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.

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

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

## 3. Business acquisitions

The Company acquired four companies, operating in the corporate and franchised stores segment, by way of share or asset purchase. These acquisitions were for a total consideration of \$184,260. The Company financed these acquisitions from its existing credit facilities. The results of operations of these companies are consolidated from their date of acquisition.

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

Current assets	\$	62,112
Fixed assets		10,369
Goodwill		122,051
Trademarks		2,321
Future income taxes		820
Current liabilities		(9,889)
Long-term debt		(3,524)
		<hr/>
		184,260
Less: Accrued direct acquisition costs		(520)
Balance of purchase price		(13,079)
		<hr/>
Cash consideration paid	\$	170,661

**RONA inc.****Notes to Interim Consolidated Financial Statements**

July 1, 2007 and June 25, 2006

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

**4. Capital stock****Issued and fully paid:**

The following tables present changes in the number of outstanding common shares and their aggregate stated value from December 25, 2005 to July 1, 2007:

	July 1, 2007	
	Number of shares	Amount
Balance, beginning of period	114,935,569	\$ 413,542
Issuance in exchange for common share subscription deposits	120,715	2,513
Issuance under stock-based compensation plans	339,327	1,876
Issuance in exchange for cash	2,769	65
Balance before elimination of reciprocal shareholdings	115,398,380	417,996
Elimination of reciprocal shareholdings	(56,841)	(341)
Balance, end of period	115,341,539	417,655
Deposits on common share subscriptions, net of eliminations of joint ventures <sup>(a)</sup>		1,593
		\$ 419,248

	June 25, 2006	
	Number of shares	Amount
Balance, beginning of period	114,412,744	\$ 408,943
Issuance in exchange for common share subscription deposits	101,696	2,192
Issuance under stock-based compensation plans	352,300	1,755
Issuance in exchange for cash	13,748	310
Balance before elimination of reciprocal shareholdings	114,880,488	413,200
Elimination of reciprocal shareholdings	(54,828)	(299)
Balance, end of period	114,825,660	412,901
Deposits on common share subscriptions, net of eliminations of joint ventures <sup>(a)</sup>		1,183
		\$ 414,084

**RONA inc.****Notes to Interim Consolidated Financial Statements**

July 1, 2007 and June 25, 2006

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

**4. Capital stock (continued)**

	December 31, 2006	
	Number of shares	Amount
Balance, beginning of year	114,412,744	\$ 408,943
Issuance in exchange for common share subscription deposits	101,696	2,192
Issuance under stock-based compensation plans	400,550	1,952
Issuance in exchange for cash	20,579	455
Balance before elimination of reciprocal shareholdings	114,935,569	413,542
Elimination of reciprocal shareholdings	(54,920)	(301)
Balance, end of year	114,880,649	413,241
Deposits on common share subscriptions, net of eliminations of joint ventures <sup>(a)</sup>		2,476
		\$ 415,717

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

**Stock-based compensation plan of May 1, 2002**

The Company adopted a stock option purchase plan for designated senior executives which was approved by the shareholders on May 1, 2002. A total of 2,920,000 options were granted at that date. Options granted under the plan may be exercised since the Company made a public share offering on November 5, 2002. The Company can grant options for a maximum of 3,740,000 common shares. At July 1, 2007 the 2,920,000 options granted have an exercise price of \$3.47 and of this number, 1,449,500 options (1,102,723 options at June 25, 2006) were exercised.

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

No compensation cost was expensed with respect to this plan for the twenty-six-week periods ended July 1, 2007 and June 25, 2006.

## **RONA inc.**

### **Notes to Interim Consolidated Financial Statements**

July 1, 2007 and June 25, 2006

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

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#### **4. Capital stock (continued)**

##### **Stock-based compensation plan of October 24, 2002**

On October 24, 2002, the Board of Directors approved another stock-based compensation plan for designated senior executives of the Company and for certain 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 a previous stock option plan. These options become vested at 25% per year, if the market price of the common share has traded, for at least 20 consecutive trading days during the twelve-month period preceding the grant anniversary date, at a price equal to or higher than the grant price plus a premium of 8% compounded annually.

On March 8, 2007, the Board of Directors approved certain modifications to the plan. These modifications were also approved by the shareholders at the annual shareholders' meeting on May 8, 2007. These modifications establish that this plan is no longer applicable to the designated directors of the Company and also 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 option. For the options granted on March 8, 2007 the Board approved the option grant with vesting over a four-year period following the anniversary date of the grant at 25 % per year.

At July 1, 2007, the 1,700,852 options (1,487,276 options at June 25, 2006) granted have exercise prices ranging from \$14.29 to \$26.87 and of this number, 85,100 options (44,300 options at June 25, 2006) have been exercised and 141,550 options (60,850 options at June 25, 2006) have been cancelled.

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

	<u>July 1, 2007</u>	<u>June 25, 2006</u>
Weighted average fair value per option granted	<b>\$ 8.50</b>	\$ 7.71
Risk-free interest rate	<b>3.90%</b>	4.07%
Expected volatility in stock price	<b>26 %</b>	28%
Expected annual dividend	<b>0%</b>	0%
Expected life (years)	<b>6</b>	6

Compensation cost expensed with respect to this plan was \$1,008 for the twenty-six-week period ended July 1, 2007 (\$1,098 at June 25, 2006).

**RONA inc.****Notes to Interim Consolidated Financial Statements**

July 1, 2007 and June 25, 2006

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

**4. Capital stock (continued)**

A summary of the situation from December 25, 2005 to July 1, 2007 of the Company's stock option plans and the changes that occurred during the periods then ended is presented below:

	<b>July 1, 2007</b>	
	<b>Options</b>	<b>Weighted average exercise price</b>
Balance, beginning of period	3,162,479	\$10.16
Granted	196,000	23.58
Exercised	(339,327)	4.88
Cancelled	(74,450)	20.73
Balance, end of period	2,944,702	11.39
Options exercisable, end of period	1,891,600	\$ 6.21

	<b>June 25, 2006</b>	
	<b>Options</b>	<b>Weighted average exercise price</b>
Balance, beginning of period	3,131,327	\$ 7.84
Granted	446,076	21.43
Exercised	(352,300)	4.50
Cancelled	(25,700)	17.78
Balance, end of period	3,199,403	10.02
Options exercisable, end of period	2,156,527	\$ 5.49

	<b>December 31, 2006</b>	
	<b>Options</b>	<b>Weighted average exercise price</b>
Balance, beginning of year	3,131,327	\$ 7.84
Granted	463,652	21.45
Exercised	(400,550)	4.43
Cancelled	(31,950)	18.34
Balance, end of year	3,162,479	10.16
Options exercisable, end of year	2,230,927	\$ 6.00

## **RONA inc.**

### **Notes to Interim Consolidated Financial Statements**

July 1, 2007 and June 25, 2006

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

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#### **4. Capital stock (continued)**

The following table summarizes information relating to stock options outstanding at July 1, 2007:

<u>Exercise price</u>	<u>Expiration date</u>	<u>Options outstanding</u>	<u>Options exercisable</u>
\$ 3.47	December 31, 2012	1,470,500	1,470,500
\$14.29	December 16, 2013	432,550	317,350
\$20.27	December 22, 2014	421,000	103,750
\$23.73	April 5, 2015	11,000	-
\$21.21	February 24, 2016	393,000	-
\$26.87	February 24, 2016	17,576	-
\$21.78	September 1, 2016	17,576	-
\$23.58	March 8, 2017	181,500	-
		<u>2,944,702</u>	<u>1,891,600</u>

#### **5. Guarantees**

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

The Company guarantees mortgages for certain customers to an amount of \$5,753. 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 \$14,985.

Pursuant to the terms of inventory repurchase agreements, the Company is committed towards financial institutions to buy back the inventory of certain customers at an average of 62% of the cost of the inventories to a maximum of \$56,229. 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.

#### **6. Vendor rebates**

In accordance with EIC-144 “*Accounting by a customer (including a reseller) for certain consideration received from a vendor*”, the Company must disclose the amount recognized for which the full requirements for vendor rebate entitlement have not yet been met. For the twenty-six-week period ended July 1, 2007, the Company recorded an amount of \$9,325 (\$10,069 at June 25, 2006) which was estimated based on the attainment of specified requirements to receive the rebates.

## **RONA inc.**

### **Notes to Interim Consolidated Financial Statements**

July 1, 2007 and June 25, 2006

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

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#### **7. Employee future benefits**

At July 1, 2007, the Company had eight defined contribution pension plans and four defined benefit pension plans. The net pension expense for the benefit plans is as follows:

	<b>Second Quarter</b>		<b>Year-to-date</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
Costs recognized for defined contribution pension plans	\$ 2,188	\$ 2,123	\$ 4,272	\$ 3,674
Cost recognized for defined benefit pension plans	328	376	654	686
Net employee future benefit costs	\$ 2,516	\$ 2,499	\$ 4,926	\$ 4,360

#### **8. Contingencies**

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

#### **9. 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.

**RONA inc.****Notes to Interim Consolidated Financial Statements**

July 1, 2007 and June 25, 2006

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

**9. Segmented information (continued)**

	Second Quarter		Year-to-date	
	2007	2006	2007	2006
<b>Segment sales</b>				
Corporate and franchised stores	\$ 1,136,313	\$ 1,016,606	\$ 1,783,508	\$ 1,591,663
Distribution	705,671	668,245	1,195,199	1,115,134
Total	1,841,984	1,684,851	2,978,707	2,706,797
<b>Intersegment sales and royalties</b>				
Corporate and franchised stores	(3,960)	(3,747)	(6,280)	(5,790)
Distribution	(368,924)	(335,095)	(624,831)	(556,212)
Total	(372,884)	(338,842)	(631,111)	(562,002)
<b>Sales</b>				
Corporate and franchised stores	1,132,353	1,012,859	1,777,228	1,585,873
Distribution	336,747	333,150	570,368	558,922
Total	1,469,100	1,346,009	2,347,596	2,144,795
<b>Earning before interest, depreciation and amortization, rent, income taxes and non-controlling interest</b>				
Corporate and franchised stores	169,111	149,535	217,961	197,279
Distribution	26,936	26,110	49,051	48,013
Total	196,047	175,645	267,012	245,292
<b>Earnings before interest, depreciation and amortization, income taxes and non-controlling interest</b>				
Corporate and franchised stores	141,095	125,430	164,482	152,132
Distribution	20,683	19,585	38,146	35,464
Total	161,778	145,015	202,628	187,596
<b>Acquisition of fixed assets</b>				
Corporate and franchised stores	66,264	38,999	105,710	72,827
Distribution	7,092	9,701	11,650	20,181
Total	73,356	48,700	117,360	93,008
<b>Goodwill</b>				
Corporate and franchised stores	121,210	12,917	122,051	48,952
Distribution	-	-	-	-
Total	\$ 121,210	\$ 12,917	\$ 122,051	\$ 48,952
<b>Total assets</b>				
Corporate and franchised stores			2,098,438	1,631,898
Distribution			540,909	448,933
Total			\$ 2,639,347	\$ 2,080,831

**RONA inc.****Notes to Interim Consolidated Financial Statements**

July 1, 2007 and June 25, 2006

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

**10. Earnings per share**

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

	<b>Second Quarter</b>		<b>Year-to-date</b>	
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Net earnings</b>	<b>\$ 86,163</b>	<b>\$ 80,012</b>	<b>\$ 95,190</b>	<b>\$ 96,392</b>
<b>Number of shares (in thousands)</b>				
Weighted average number of shares used to compute basic net earnings per share	<b>115,339.1</b>	114,731.9	<b>115,234.1</b>	114,606.6
Effect of dilutive stock options <sup>(a)</sup>	<b>1,460.6</b>	1,778.0	<b>1,547.8</b>	1,847.3
Weighted average number of shares used to compute diluted net earnings per share	<b>116,799.7</b>	116,509.9	<b>116,781.9</b>	116,453.9
<b>Net earnings per share - basic</b>	<b>\$ 0.75</b>	<b>\$ 0.70</b>	<b>\$ 0.83</b>	<b>\$ 0.84</b>
<b>Net earnings per share - diluted</b>	<b>\$ 0.74</b>	<b>\$ 0.69</b>	<b>\$ 0.82</b>	<b>\$ 0.83</b>

- (a) At July 1, 2007, 620,652 common share stock options (911,076 options at June 25, 2006) were excluded from the calculation of diluted net earnings per share since the unrecognized future compensation cost of these options has an antidilutive effect.

## **RONA inc.**

### **Notes to Interim Consolidated Financial Statements**

July 1, 2007 and June 25, 2006

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

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#### **11. Effect of new accounting standards not yet implemented**

In December 2006, the CICA issued the following new recommendations which apply to fiscal years beginning on or after October 1, 2007. During the next quarters, the Company will evaluate the impact of the adoption of these new sections on its consolidated financial statements.

##### **Financial instruments – disclosures**

Section 3862, *Financial Instruments - Disclosures* describes the required disclosures related to the significance of financial instruments on the entity's financial position and performance and the nature and extent of risks arising for financial instruments to which the entity is exposed and how the entity manages those risks. This Section complements the principles of recognition, measurement and presentation of financial instruments of Section 3855, *Financial Instruments – Recognition and Measurement*.

##### **Financial instruments – presentation**

Section 3863, *Financial Instruments – Presentation* establishes standards for presentation of financial instruments and non-financial derivatives. It complements standards of Section 3861, *Financial Instruments – Disclosure and Presentation*.

##### **Capital disclosures**

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