



RONA

*MANAGEMENT'S DISCUSSION AND
ANALYSIS AND CONSOLIDATED
FINANCIAL STATEMENTS
THIRD QUARTER 2012*



MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THIRD QUARTER OF 2012

13-week and 39-week periods ended September 23, 2012

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. The Corporation operates a network of close to 800 corporate, franchise and affiliate stores of various sizes and formats under several banners, and a network of 14 hardware and construction materials distribution centres which are flexible and perfectly adapted to the diverse needs of its clientele. RONA is also a leader in the specialized plumbing and HVAC market, primarily serving commercial and professional customers with a network of close to 60 sales outlets and four distribution centres across the country.

In total, RONA supplies nearly 1,500 sales outlets, of which more than 830 are under one of its banners, as well as close to 600 clients, independent dealers, in its distribution network. With nearly 30,000 employees working under its family of banners in every region of Canada, the RONA store network generates consolidated sales of \$4.8 billion and over \$6 billion taking into account the total impact of the retail sales of franchise dealers, affiliates and other independent dealers who buy their supplies at RONA. For more information, please visit rona.ca.

RONA's sales include:

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

FINANCIAL STATEMENTS

This *Management's Discussion and Analysis* should be read in conjunction with the Corporation's unaudited interim consolidated financial statements and related notes for the 13-week and 39-week periods ending September 23, 2012. These interim condensed consolidated financial statements were prepared in accordance with International Financial Reporting Standards ("IFRS"). The monetary amounts in these financial statements are expressed in Canadian dollars, unless otherwise indicated. RONA has filed its consolidated financial statements with the Canadian Securities Administrators and they can be viewed online at www.sedar.com or on RONA's website at www.rona.ca.

NON-GAAP PERFORMANCE MEASURES

In this report, as in its internal management, RONA uses the concept of "earnings before interest, taxes, depreciation, amortization and non-controlling interests" (EBITDA). RONA also uses the concept of "adjusted gross margin," which corresponds to revenues less the cost of goods sold, plus adjustments for network support.

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

The following tables show the reconciliation of these two measures to IFRS:

Reconciliation of non-GAAP measures

(Unaudited, in thousands of dollars, except margins in %)	Quarters ended			
	September 23, 2012	September 25, 2011	\$ change from 2011	% change from 2011
Revenues	1,336,560	1,347,135	(10,575)	(0.8%)
Cost of sales	(976,832)	(968,696)	(8,136)	(0.8%)
Gross profit	359,728	378,439	(18,711)	(4.9%)
Gross margin (gross profit/revenues)	26.91%	28.09%	-	-118 b.p.
Adjustments for network support ⁽¹⁾	29,621	33,850	(4,229)	(12.5%)
Adjusted gross profit	389,349	412,289	(22,940)	(5.6%)
Adjusted gross margin (adjusted gross profit/revenues)	29.13%	30.60%	-	-147 b.p.
Adjusted gross profit (excluding unusual items)	392,029	412,289	(20,260)	(4.9%)
Adjusted gross margin (adjusted gross profit/revenues) (excluding unusual items)	29.33%	30.60%	-	-127 b.p.
Adjusted selling, general and administrative expenses	(347,830)	(306,873)	(40,957)	(13.3%)
Adjusted selling, general and administrative expenses (excluding unusual items)	(324,840)	(306,873)	(17,967)	(5.9%)
Adjusted selling, general and administrative expenses (excluding unusual items and non-recurring items)	(312,364)	(306,873)	(5,491)	(1.8%)
Rent	38,970	39,536	(566)	(1.4%)
EBITDA before rent	80,489	144,952	(64,463)	(44.5%)
EBITDA before rent (excluding unusual items)	106,159	144,952	(38,793)	(26.8%)
EBITDA before rent (excluding unusual items and non-recurring items)	118,635	144,952	(26,317)	(18.2%)
EBITDA margin before rent (EBITDA before rent/revenues)	6.02%	10.76%	-	-474 b.p.
EBITDA margin before rent (EBITDA before rent/revenues, excluding unusual items)	7.94%	10.76%	-	-282 b.p.
EBITDA margin before rent (EBITDA before rent/revenues, excluding unusual items and non-recurring items)	8.88%	10.76%	-	-188 b.p.
EBITDA	41,519	105,416	(63,897)	(60.6%)
EBITDA (excluding unusual items)	67,189	105,416	(38,227)	(36.3%)
EBITDA (excluding unusual items and non-recurring items)	79,665	105,416	(25,751)	(24.4%)
EBITDA margin (EBITDA/revenues)	3.11%	7.83%	-	-472 b.p.
EBITDA margin (EBITDA/revenues, excluding unusual items)	5.03%	7.83%	-	-280 b.p.
EBITDA margin (EBITDA/revenues, excluding unusual items and non-recurring items)	5.96%	7.83%	-	-187 b.p.
Finance income	(1,481)	(1,486)	5	0.3%
Amortization, depreciation and impairment of non-financial assets	(25,224)	(26,947)	1,723	6.4%
Amortization, depreciation and impairment of non-financial assets (excluding unusual items)	(25,181)	(26,947)	1,766	6.6%
Operating profit	14,814	76,983	(62,169)	(80.8%)
Operating profit (excluding unusual items)	40,527	76,983	(36,456)	(47.4%)
Operating profit (excluding unusual items and non-recurring items)	53,003	76,983	(23,980)	(31.1%)
Net income attributable to participating shares	5,126	47,750	(42,624)	(89.3%)
Net income attributable to participating shares (excluding unusual items)	23,948	47,750	(23,802)	(49.8%)
Net income attributable to participating shares (excluding unusual items and non-recurring items)	33,080	47,750	(14,670)	(30.7%)

⁽¹⁾ Corresponds to other costs incurred in bringing the inventory to its present location and condition.

Reconciliation of non-GAAP measures

(Unaudited, in thousands of dollars, except margins in %)	Year to date			
	September 23, 2012	September 25, 2011	\$ change from 2011	% change from 2011
Revenues	3,688,631	3,635,392	53,239	1.5%
Cost of sales	(2,684,118)	(2,610,562)	(73,556)	(2.8%)
Gross profit	1,004,513	1,024,830	(20,317)	(2.0%)
Gross margin (gross profit/revenues)	27.23%	28.19%	-	-96 b.p.
Adjustments for network support ⁽¹⁾	81,065	84,066	(3,001)	(3.6%)
Adjusted gross profit	1,085,578	1,108,896	(23,318)	(2.1%)
Adjusted gross margin (adjusted gross profit/revenues)	29.43%	30.50%	-	-107 b.p.
Adjusted gross profit (excluding unusual items)	1,093,826	1,108,896	(15,070)	(1.4%)
Adjusted gross margin (adjusted gross profit/revenues) (excluding unusual items)	29.65%	30.50%	-	-85 b.p.
Adjusted selling, general and administrative expenses	(946,366)	(905,530)	(40,836)	(4.5%)
Adjusted selling, general and administrative expenses (excluding unusual items)	(920,944)	(905,530)	(15,414)	(1.7%)
Adjusted selling, general and administrative expenses (excluding unusual items and non-recurring items)	(908,468)	(905,530)	(2,938)	(0.3%)
Rent	118,334	121,352	(3,018)	(2.5%)
EBITDA before rent	257,546	324,718	(67,172)	(20.7%)
EBITDA before rent (excluding unusual items)	291,216	324,718	(33,502)	(10.3%)
EBITDA before rent (excluding unusual items and non-recurring items)	303,692	324,718	(21,026)	(6.5%)
EBITDA margin before rent (EBITDA before rent/revenues)	6.98%	8.93%	-	-195 b.p.
EBITDA margin before rent (EBITDA before rent/revenues, excluding unusual items)	7.89%	8.93%	-	-104 b.p.
EBITDA margin before rent (EBITDA before rent/revenues, excluding unusual items and non-recurring items)	8.23%	8.93%	-	-70 b.p.
EBITDA	139,212	203,366	(64,154)	(31.5%)
EBITDA (excluding unusual items)	172,882	203,366	(30,484)	(15.0%)
EBITDA (excluding unusual items and non-recurring items)	185,358	203,366	(18,008)	(8.9%)
EBITDA margin (EBITDA/revenues)	3.77%	5.59%	-	-182 b.p.
EBITDA margin (EBITDA/revenues, excluding unusual items)	4.69%	5.59%	-	-90 b.p.
EBITDA margin (EBITDA/revenues, excluding unusual items and non-recurring items)	5.03%	5.59%	-	-56 b.p.
Finance income	(3,954)	(4,197)	243	5.8%
Amortization, depreciation and impairment of non-financial assets	(77,752)	(79,306)	1,554	2.0%
Amortization, depreciation and impairment of non-financial assets (excluding unusual items)	(72,723)	(79,306)	6,583	8.3%
Operating profit	57,506	119,863	(62,357)	(52.0%)
Operating profit (excluding unusual items)	96,205	119,863	(23,658)	(19.7%)
Operating profit (excluding unusual items and non-recurring items)	108,681	119,863	(11,182)	(9.3%)
Net income attributable to participating shares	25,963	67,209	(41,246)	(61.4%)
Net income attributable to participating shares (excluding unusual items)	54,291	67,209	(12,918)	(19.2%)
Net income attributable to participating shares (excluding unusual items and non-recurring items)	63,423	67,209	(3,786)	(5.6%)

⁽¹⁾ Corresponds to other costs incurred in bringing the inventory to its present location and condition.

FISCAL YEAR

RONA's fiscal year ends on the last Sunday of each year and usually has 52 weeks. For interim disclosure purposes, quarters end on the last Sunday of March, June, September and December respectively, and have 13 weeks. The fiscal year ended December 25, 2011, had 52 weeks of operations, while the year ending December 30, 2012 will have 53 weeks.

UPDATE ON THE CORPORATION'S STRATEGIC ORIENTATION

Announced in February 2012, the theme of RONA's 2012-2014 business plan is *New Realities, New Solutions*. The plan addresses the need to adapt the offering in our industry to new expectations and changes in the behaviour of many consumers. For a number of years RONA has foreseen the emergence in the market of proximity stores that meet the demands of consumers who want a higher level of service. RONA pioneered in this area by reinventing the proximity store in the early 2000s. The success of several generations of this new format confirms RONA's market analyses. The new plan capitalizes on our ongoing market research, including studies on consumer expectations and behaviours, as well as our continual experimentation with new store formats and new retail sales approaches. Below is an update on the plan's results since the start of the fiscal year.

New Realities, New Solutions Plan **Update – Fiscal year to date at November 7, 2012**

1. Set up new integrated digital platform

- Launch of the website rona.ca, consumers and businesses.
- Marked increase in online sales to an average basket of more than \$200.
- Strong growth in traffic on the RONA digital platforms: rona.ca, online flyer, coupons.rona.ca, ronamag, Facebook, YouTube, etc.
- More than 1.3 million subscribers to the RONA email newsletter.
- Launch of integrated pre-Olympic and Olympic advertising campaign on multiple platforms.
- Launch of new RONA mobile app in early August, with close to 50,000 downloads to date.

2. Redeployment of sales volume to proximity and satellite stores in close to 20% of the corporate-store network

- Closures of four of the ten big-box stores slated for closure in 2012: the stores in Brampton, Mississauga and Whitby, in Ontario, and Calgary North, and phased closure of the big-box store in Edmonton West, Alberta. The process of transferring customers and sales volume to other stores in the network is underway.
- Transfer of customers and sales volume from our conventional store in Peterborough, Ontario, to that of the existing Millwork store recruited in this area.
- Thirteen prime sites being negotiated, two sites secured and six leases signed for the redeployment of sales volume from big-box stores to proximity and satellite stores.
- Opening in October and June of satellite stores in the communities of New Westminster, British Columbia, and Douglasdale, Alberta.
- Early August opening of first new-concept proximity store in Edmonton West, Alberta. This store is generating an average basket that is 20% higher than that of the big-box store it replaces.
- Expansion of satellite store in Georgetown, Ontario, from 4,800 square feet to 7,100 square feet, just one year after it opened.
- Consolidation of a RONA and a TOTEM proximity store in Medicine Hat, Alberta.
- Consolidation of TOTEM and RONA contractor yards in Calgary and Edmonton, Alberta.

3. Further development of the commercial and professional segment

- Optimized recent investments: acquisitions of Don Park, MPH and Décoration 25 (20 outlets in total), addition of five outlets, 175,000-square-foot expansion of the Concord distribution centre in Ontario, and 23,000-square-foot expansion of the Montreal distribution centre, in Quebec.
- Changed the management and operating structure and implemented an efficiency improvement plan.

4. Ongoing development of the RONA dealer-owner network

- Recruitment of two important dealers in Ontario: Kemptville Building Center in November and Millwork in May.
- Expansion projects of more than \$40 million to date and another \$50 million scheduled for 2013.
- New dealer support team that combines the best aspects of RONA and TruServ Canada.

5. Anticipated annual recurring benefit of \$10 million in 2012, \$30 million in 2013 and \$40 million in 2014

- Deliberate postponement of the closure of five big-box stores, to ensure closures are aligned with the opening of new proximity and satellite stores.
- Postponement decreases annual recurring benefit to \$6 million for 2012 and \$25 million for 2013.
- Still well positioned to achieve anticipated annual benefits of more than \$40 million in 2014.

6. Planned investment of \$70 million in property, plant and equipment, financed from the sale of non-strategic assets

- Planned investments of less than \$20 million in property, plant and equipment for 2012 and \$50 million for 2013.
- Sale of \$10.9 million in non-strategic assets since the start of the fiscal year.
- More than \$25 million in assets held for sale in the short-term and more than \$75 million identified for the longer term.

7. Planned restructuring costs of \$110 million related to redeployment of the sales volume in 20% of the corporate-store network

- \$38.7 million recognized since the plan was put in place in February 2012.
- Given the postponement in store closures and in the reduction of the square-footage of certain stores, anticipated costs are now \$50 million for 2012 and \$60 million for 2013.

Note that in addition to positioning RONA in the forefront of its industry, the *New Realities, New Solutions* plan was designed to address the three main financial priorities announced by the Corporation in the third quarter of 2011: to improve efficiency, optimize capital structure and increase return on capital. The plan will provide important leverage in improving return on capital. When it was introduced, it was expected that it would generate an estimated annualized contribution to EBITDA of \$10 million starting in the fourth quarter 2012, more than \$30 million for fiscal 2013, and more than \$40 million starting in 2014.

The current situation does not make it easy to implement our plan; but implement we must to ensure a solid and sustainable financial performance for RONA and our shareholders. To make sure the closures are appropriately coordinated with the sales volume being redeployed to new proximity and satellite stores in targeted regions and to minimize the financial impact on RONA, we have deliberately postponed the closing of five big-box stores. This postponement decreases the annual recurring benefit to \$6 million for 2012 and to \$25 million for 2013. We are, however, still in a good position to achieve anticipated annualized benefits of more than \$40 million in 2014.

Our actions are always dictated by our three financial priorities. This disciplined approach is focused on achieving a greater than 10% return on capital in the medium term. We made steady progress in this area during the four consecutive quarters ending on June 24, 2012. This upward trend was interrupted in the last quarter, as a sharp deterioration in market conditions and a change in our sales mix in favour of lower-margin products affected our operating income. However, the continuation of our capital structure optimization initiatives, namely a higher inventory turnover rate and disciplined investment management, allowed us to mitigate the impact of the decrease on our return on capital and protect our strong balance sheet.

Given the highly promotional and competitive environment, the expected pressure on same-store sales and the impact of inflation on operating and administrative costs, new operational initiatives and efficiency measures are being implemented to address these elements and limit the decrease in profitability in coming quarters. Moreover, our New Realities, New Solutions plan will continue to have an increasingly positive impact.

The following table shows achievements since the Corporation's three financial priorities were adopted in the third quarter of 2011.

FINANCIAL PRIORITIES	ACHIEVEMENTS VS PRIORITIES (excluding unusual and non-recurring items)					
	Q3-2011	Q4-2011	Q1-2012	Q2-2012	Q3-2012	
1. IMPROVE EFFICIENCY						
Same-store sales trending upward	✓	✓	✓	✓	-1%	✗
Increase in adjusted gross margin in dollars	✓	✓	✓	✓	-\$20.3 M	✗
Decrease in comparable SG&A	✓	✓	✓	✓	+\$2.2 M	✗
Increase in EBITDA margin	✓	✓	✓	✓	-187 b.p.	✗
2. OPTIMIZE CAPITAL STRUCTURE						
Sale of assets	✓	✓	✓	✓	\$0.0 M	✗
CAPEX/Amortization and depreciation	✓	✓	✓	✓	0.8X	✓
Inventory turnover	✓	✓	✓	✓	3.54 vs 3.39	✓
Share repurchase	✓	✓	✓	✓	N/A*	n/a*
3. INCREASE RETURN ON CAPITAL						
After-tax EBIT	✓	✓	✓	✓	-\$15.9 M	✗
Disciplined capital management ⁽¹⁾	✓	✓	✓	✓	-\$24.1 M	✓
Return on capital ⁽²⁾	✓	✓	✓	✓	4.8% vs 5.4%	✗

⁽¹⁾ Capital equals net working capital plus property, plant and equipment and intangible assets plus non-current assets held for sale plus goodwill plus current projects plus other financial and non-current assets plus deferred income tax assets minus other non-current liabilities minus deferred tax liabilities.

⁽²⁾ Average return on capital equals after-tax EBIT, excluding unusual and non-recurring items/average capital.

* The Corporation was prohibited from trading for most of the quarter due to the unsolicited acquisition proposal received from U.S.-based Lowe's.

CONSOLIDATED RESULTS FOR THIRD QUARTER 2012

The results analyzed in this section are for the 13 weeks ended September 23, 2012 and, when compared, are compared to the results for the 13 weeks ended September 25, 2011, unless otherwise indicated.

RONA has two reportable segments: (1) distribution and (2) retail and commercial.

The retail and commercial segment groups RONA's corporate and franchised stores ("Retail"), and its Commercial and Professional Market division ("Commercial").

The table below summarizes the Corporation's segment results.

Key segment figures (in thousands of dollars)	Quarters ended			
	September 23, 2012	September 25, 2011	\$ change from 2011	% change from 2011
Segment revenues				
Retail and commercial	1,026,174	1,045,115	(18,941)	(1.8%)
Distribution	626,191	607,200	18,991	3.1%
Total	1,652,365	1,652,315	50	0.0%
Intersegment revenues and royalties				
Retail and commercial	(4,305)	(7,206)	2,901	40.3%
Distribution	(311,500)	(297,974)	(13,526)	(4.5%)
Total	(315,805)	(305,180)	(10,625)	(3.5%)
Revenues				
Retail and commercial	1,021,869	1,037,909	(16,040)	(1.5%)
Distribution	314,691	309,226	5,465	1.8%
Total	1,336,560	1,347,135	(10,575)	(0.8%)
EBITDA (before unusual items and non-recurring items)				
Retail and commercial	60,741	85,288	(24,547)	(28.8%)
Distribution	18,924	20,128	(1,204)	(6.0%)
Total	79,665	105,416	(25,751)	(24.4%)
EBITDA margin (before unusual items and non-recurring items)				
Retail and commercial	5.94%	8.22%	-	-228 b.p.
Distribution	6.01%	6.51%	-	-50 b.p.
Total	5.96%	7.83%	-	-187 b.p.
EBITDA (before unusual items)				
Retail and commercial	51,627	85,288	(33,661)	(39.5%)
Distribution	15,562	20,128	(4,566)	(22.7%)
Total	67,189	105,416	(38,227)	(36.3%)
EBITDA margin (before unusual items)				
Retail and commercial	5.05%	8.22%	-	-317 b.p.
Distribution	4.95%	6.51%	-	-156 b.p.
Total	5.03%	7.83%	-	-280 b.p.
EBITDA				
Retail and commercial	25,957	85,288	(59,331)	(69.6%)
Distribution	15,562	20,128	(4,566)	(22.7%)
Total	41,519	105,416	(63,897)	(60.6%)
EBITDA margin				
Retail and commercial	2.54%	8.22%	-	-568 b.p.
Distribution	4.95%	6.51%	-	-156 b.p.
Total	3.11%	7.83%	-	-472 b.p.

After achieving, for four consecutive quarters, results consistent with its three financial priorities, which are to improve efficiency, optimize the capital structure and increase the return on capital, RONA saw its progress interrupted in a quarter marked by a decline in the Canadian hardware-renovation industry as a whole. The drop in sales, coupled with more intense competition, put pressure on profit margins. In this adverse environment, RONA used dynamic promotions to limit to nearly 1% the pull back in the network's consolidated and same-store sales. While countering the effects of the market slowdown, RONA continued to manage its capital with rigour and discipline. Indeed, the cash flows generated by the Corporation's operations almost doubled versus the same period in 2011, to \$149.4 million.

Revenues

Consolidated revenues for the third quarter 2012 stood at \$1,336.6 million, down \$10.6 million or 0.8%, year over year. The decrease stems from the 1% decrease in same-store sales, partially offset by the opening of new stores and dealer recruitment.

Same-store sales

As reported in the second quarter of 2012, the purpose of the new method of calculating same-store sales is to better represent the performance of the RONA network as a whole. The calculation now includes same-store distribution sales to RONA affiliate dealer-owners, who account for more than 25% of total sales. Note that same-store sales for the past nine quarters were restated in Management's Discussion and Analysis. After improving from February to June, market conditions during the quarter reflected renewed consumer caution, or even reluctance, with respect to spending. In response to this attitude, all industry stakeholders, including RONA, intensified their promotional activities, which exerted downward pressure on prices. RONA's prompt response to the re-emergence of this difficult environment limited to 1% the decrease in same-store sales across the RONA network. For the retail and commercial segment alone, same-store sales were down 1.8%, while same-store distribution sales to all RONA dealers grew 3.8%.

Unusual and non-recurring items

As announced upon release of fiscal 2011 year-end results, unusual items totalling \$25.7 million were recognized under the program to redeploy sales volume from the network of big-box stores to proximity and satellite stores. A portion of these items, \$2.7 million, was deducted from gross margin. The remaining \$23.0 million was recognized in the Corporation's selling, general and administrative expenses. The total net after-tax amount of these items was \$18.8 million, or \$0.16 per share. These items required a cash outlay of \$3.1 million. Note that these unusual items are presented separately under Restructuring costs, impairment of non-financial assets and other charges in the consolidated income statement. In the third quarter, the Corporation also recorded other non-recurring items, namely costs incurred following the non-binding and unsolicited offer by Lowe's, severance payments related to an administrative-services reorganization in July 2012 and the one-time increase in advertising expense for the Olympic campaign. These costs, totalling \$12.5 million, were recognized in selling, general and administrative expenses. The total net after-tax amount of these items was \$9.2 million, or \$0.07 per share.

The table below summarizes RONA's performance including and excluding unusual items and non-recurring items.

	Quarters ended			
	September 23, 2012	September 25, 2011	\$ change from 2011	% change from 2011
EBITDA	41.5	105.4	(63.9)	(60.6%)
EBITDA excluding unusual items	67.2	105.4	(38.2)	(36.3%)
EBITDA excluding unusual items and non-recurring items	79.7	105.4	(25.7)	(24.4%)
EBITDA margin	3.11%	7.83%	-	-472 b.p.
EBITDA margin excluding unusual items	5.03%	7.83%	-	-280 b.p.
EBITDA margin excluding unusual items and non-recurring items	5.96%	7.83%	-	-187 b.p.
Diluted net earnings per share	\$0.04	\$0.36	(\$0.32)	(88.9%)
Diluted net earnings per share excluding unusual items	\$0.20	\$0.36	(\$0.16)	(44.4%)
Diluted net earnings per share excluding unusual items and non-recurring items	\$0.27	\$0.36	(\$0.09)	(25.0%)

Gross margin

Gross margin amounted to 26.91%, down 118 basis points from the third quarter of 2011. Adjusted gross margin excluding unusual items was down 127 basis points to 29.33%. This decrease stems mainly from intensified competition, which led to an increase in promotional activities and downward pressure on prices in several product categories, coupled with higher costs for certain construction materials, such as lumber. The decrease also stems from a major increase in sales of building materials that had a lower margin than hardware products.

Selling, general and administrative expenses

Adjusted selling, general and administrative expenses rose by \$41.0 million in the third quarter, from \$306.9 million in 2011 to \$347.8 million in 2012. More than 85% of this increase is due to unusual or non-recurring items. The remainder stems mainly from expenses related to development of the Commercial and Professional Market division network, as observed since the beginning of the year, and store acquisitions and openings.

EBITDA

In the third quarter, EBITDA before unusual and non-recurring items amounted to \$79.7 million, versus \$105.4 million in the third quarter of 2011, a decrease of \$25.7 million, or 24.4%. The change is mainly due to the decrease in adjusted gross profit and increased selling, general and administrative expenses.

The one-time increase of \$3.2 million in operating costs in the Commercial and Professional Market division associated with the network expansion, had a negative impact on EBITDA. Although the network expansion is on track to realizing its full potential, a major efficiency

improvement plan has been put in place in this division to quickly reduce operating costs to a level more in line with the division's historical performance.

EBITDA margin before unusual and non-recurring items was down 187 basis points, from 7.83% in third quarter 2011 to 5.96% in 2012. The decrease is primarily due to significant downward pressure on the Corporation's gross margin given the change in product mix, customers and particularly difficult market conditions.

EBITDA after unusual and non-recurring items amounted to \$41.5 million, compared to \$105.4 million in 2011. EBITDA margin after unusual and non-recurring items fell from 7.83% in the third quarter of 2011 to 3.11% in 2012.

Interest, amortization, depreciation and impairment

Interest expense on long-term debt and bank loans was down \$1.4 million, or 21.8%, for the quarter. The decrease is due to the interest savings generated by the \$283 million debenture repurchase at the end of 2011, and to strict management of the balance sheet and spending on property, plant and equipment, partially offset by greater use of credit facilities versus the corresponding quarter of 2011. Amortization, depreciation and impairment of non-financial assets expenses before unusual items were also down for the quarter, from \$26.9 million to \$25.2 million, a decrease of \$1.7 million, or 6.6%, stemming from a significant reduction in capital investments in 2011 and 2012, as well as the asset write-downs at the end of fiscal 2011.

Net income

Although the decrease in EBITDA was partially offset by the decrease in financial expenses and amortization and depreciation expense, net income before unusual and non-recurring items attributable to participating shares after the dividend on preferred shares was down from \$47.8 million, or \$0.36 per share (diluted) in 2011 to \$33.1 million, or \$0.27 per share (diluted).

After recognition of unusual and non-recurring items totalling \$28.0 million after tax, net income attributable to participating shares after the dividend on preferred shares declined from \$47.8 million to \$5.1 million. Diluted net earnings per share went from \$0.36 to \$0.04. Note that the average number of shares outstanding used to calculate net earnings per share decreased from 131.1 million shares in third quarter 2011 to 121.4 million shares in third quarter 2012 following the share repurchases made under the share repurchase in the normal course of business plan put in place by the Corporation in November 2011. To date the average purchase price is \$9.47 per share.

CONSOLIDATED RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 23, 2012

The results analyzed in this section are for the 39-week period ending September 23, 2012 and, when compared, are compared to the results for the 39-week period ending September 25, 2011, unless otherwise indicated.

Key segment figures (in thousands of dollars)	Year to date			
	September 23, 2012	September 25, 2011	\$ change from 2011	% change from 2011
Segment revenues				
Retail and commercial	2,763,412	2,753,952	9,460	0.3%
Distribution	1,891,805	1,818,432	73,373	4.0%
Total	4,655,217	4,572,384	82,833	1.8%
Intersegment revenues and royalties				
Retail and commercial	(12,729)	(20,836)	8,107	38.9%
Distribution	(953,857)	(916,156)	(37,701)	(4.1%)
Total	(966,586)	(936,992)	(29,594)	(3.2%)
Revenues				
Retail and commercial	2,750,683	2,733,116	17,567	0.6%
Distribution	937,948	902,276	35,672	4.0%
Total	3,688,631	3,635,392	53,239	1.5%
EBITDA (before unusual items and non-recurring items)				
Retail and commercial	129,970	154,677	(24,707)	(16.0%)
Distribution	55,388	48,689	6,699	13.8%
Total	185,358	203,366	(18,008)	(8.9%)
EBITDA margin (before unusual items and non-recurring items)				
Retail and commercial	4.73%	5.66%	-	-93 b.p.
Distribution	5.91%	5.40%	-	51 b.p.
Total	5.03%	5.59%	-	-56 b.p.
EBITDA (before unusual items)				
Retail and commercial	120,856	154,677	(33,821)	(21.9%)
Distribution	52,026	48,689	3,337	6.9%
Total	172,882	203,366	(30,484)	(15.0%)
EBITDA margin (before unusual items)				
Retail and commercial	4.39%	5.66%	-	-127 b.p.
Distribution	5.55%	5.40%	-	15 b.p.
Total	4.69%	5.59%	-	-90 b.p.
EBITDA				
Retail and commercial	87,186	154,677	(67,491)	(43.6%)
Distribution	52,026	48,689	3,337	6.9%
Total	139,212	203,366	(64,154)	(31.5%)
EBITDA margin				
Retail and commercial	3.17%	5.66%	-	-249 b.p.
Distribution	5.55%	5.40%	-	15 b.p.
Total	3.77%	5.59%	-	-182 b.p.

Revenues

Consolidated revenues for the first nine months of 2012 rose to \$3,688.6 million, up \$53.2 million, or 1.5%, over the corresponding quarter in 2011. The increase stems from an 8.4% increase in sales in the Commercial and Professional Market Division, new store openings, the recruiting of new dealer-owners and higher same-store sales in the RONA network, particularly in distribution sales to affiliate dealers.

Same-store sales

Same-store sales for the RONA network as a whole (retail, commercial and distribution) remained at the same level as in 2011. This performance stems from a 6.2% increase in same-store distribution sales to affiliate dealer-owners. Same-store sales in the retail and commercial segment were, for their part, down 1.2%, given the negative impact of the mix of products sold and consumers' return to a more cautious approach as of late May.

Unusual and non-recurring items

Unusual items totalling \$38.7 million were recognized during the first three quarters under the program to redeploy sales volume from the big-box store network to proximity and satellite stores, as anticipated when fiscal 2011 year-end results were released. A portion of these items, amounting to \$8.2 million, was deducted from gross profit. Another portion, \$25.5 million, was recognized in the Corporation's selling, general and administrative expense, and the remaining \$5 million was recognized in amortization, depreciation and impairment of non-financial assets expenses. The net total after-tax amount of these items was \$28.3 million, or \$0.23 per share. These items entailed a cash outflow of \$3.8 million. Note that these unusual items are presented separately under Restructuring costs, impairment of non-financial assets and other charges in the consolidated income statement. In the first nine months of the fiscal year, the Corporation also recorded non-recurring items due to costs resulting from the unsolicited, non-binding proposal from Lowe's, severance payments related to an administrative-services reorganization in July 2012 and the temporary increase in advertising expense for the Olympic advertising campaign. These costs of \$12.5 million were recognized under selling, general and administrative expenses. The total net after-tax amount of these items was \$9.2 million, or \$0.07 per share (diluted).

Gross margin

Gross margin amounted to 27.23%, down 96 basis points from 2011; adjusted gross margin excluding unusual items was down 85 basis points to 29.65%. As mentioned in the third-quarter analysis, the decrease stems mainly from intensified competition, which led to an increase in promotional activities and downward pressure on prices in several categories, especially building supplies. The decrease is also due to a major increase in sales of building materials that had a lower margin than hardware products. Gross margin was also affected by the higher cost of some products, such as lumber. These items were partially offset by various efficiency improvement initiatives.

Selling, general and administrative expenses

Adjusted selling, general and administrative expenses rose by \$40.9 million in the first nine months of fiscal 2012, from \$905.5 million in 2011 to \$946.4 million in 2012. The increase was recorded in the third quarter of 2012, since in the first two quarters of the fiscal year the Corporation reduced its comparable selling, general and administrative expenses. The increase is due to unusual or non-recurring items, expenses related to development of the Commercial and Professional Market division network, and store acquisitions and openings. On a comparable basis, selling general and administrative expenses were down \$13.4 million since the start of the fiscal year.

EBITDA

For the nine months ended September 23, 2012, EBITDA before unusual and non-recurring items amounted to \$185.4 million, compared to \$203.4 million in 2011, a decrease of \$18.0 million, or 8.9%. This decrease stems mainly from the lower adjusted gross margin, along with:

- higher selling, general and administrative expenses in the third quarter of fiscal 2012;
- additional operating costs in the Commercial and Professional Market division since the start of the fiscal year, which stems from network expansion in the process of achieving its full potential.

An efficiency improvement plan has been put in place in this division to reduce operating costs to a level more in line with the division's historical performance.

EBITDA margin before unusual and non-recurring items was down 56 basis points, from 5.59% in 2011 to 5.03% in 2012. The decrease is primarily due to the significant downward pressure on the Corporation's gross margin given the change in product mix, customers and particularly difficult market conditions.

EBITDA after unusual and non-recurring items amounted to \$139.2 million, compared to \$203.4 million in 2011. EBITDA margin after unusual and non-recurring items went from 5.59% in 2011 to 3.77% in 2012.

Interest, amortization, depreciation and impairment

Interest expense on long-term debt and bank loans was down \$4.8 million, or 24.7%, since the start of the year. The decrease is due to the interest savings generated by the \$283 million debenture repurchase at the end of 2011, and to strict management of the balance sheet and spending on property, plant and equipment, partially offset by greater use of credit facilities than in 2011. Amortization, depreciation and impairment of non-financial assets expenses before unusual items were also down, from \$79.3 million in 2011 to \$72.7 million in 2012. As mentioned above, an amount of \$5 million representing an impairment charge for non-financial assets was recognized in depreciation, amortization and impairment of non-financial assets. Including this amount, amortization, depreciation and impairment expense in 2012 amounted to \$77.7 million.

Net income

The decrease in EBITDA before unusual and non-recurring items was almost entirely offset by a decrease in financial and amortization and depreciation expense, such that net income before unusual and non-recurring items attributable to participating shares, net of the dividend on preferred shares, went from \$67.2 million in 2011 to \$63.4 million in 2012. Diluted net earnings per share before unusual and non-recurring items rose, from \$0.51 in 2011 to \$0.52 in 2012, due to the Corporation's share repurchases.

After recognition of unusual items and non-recurring items totalling \$37.5 million after tax, net income attributable to participating shares, net of the dividend on preferred shares, declined from \$67.2 million to \$26.0 million. Net earnings per share (diluted) declined from \$0.51 to \$0.21. Note that the average number of shares outstanding used to calculate net earnings per share decreased from 131.1 million shares in third quarter 2011 to 122.9 million shares in 2012 following the share repurchases made under the share repurchase in the normal course of business plan put in place by the Corporation in November 2011.

CASH FLOWS AND FINANCIAL POSITION FOR THE THIRD QUARTER 2012

For the third quarter of 2012, cash flows from operating activities before net change in working capital, interest received and income taxes paid stood at \$58.4 million compared to \$97.0 million in 2011. The net change in working capital was \$92.1 million in 2012, compared to negative change of \$16.8 million in 2011. This significant variation is due to changes in the product mix as well as better management of inventories and customer accounts. After the net change in working capital, interest received and income taxes paid, operating activities thus generated \$149.4 million in 2012, compared to \$77.3 million for the same period in 2011.

The Corporation continued to exercise disciplined financial management and strictly controlled its investments in property, plant and equipment. For third quarter 2012, RONA invested \$19.3 million in property, plant and equipment and intangible assets, which was \$6.5 million, or 25.1%, less than in 2011. Amounts were invested in continuous improvement of the Corporation's information systems to increase operational efficiency, and in maintenance work. Note that the level of investment in property, plant and equipment and intangible assets -- excluding investments related to the *New Realities, New Solutions* plan, which will be financed through the sale of surplus assets -- is lower than amortization and depreciation expense before unusual items of \$25.2 million in third quarter 2012.

In fiscal 2011 and to date, RONA has taken a number of steps to optimize its capital structure. Also, in November 2011, the Corporation set up a program to repurchase, in the normal course of its activities between November 11, 2011 and November 10, 2012, up to 11,016,854 common shares, representing 10% of its 110,168,541 public float or 8.4% of its 130,520,489 common shares issued and outstanding on October 31, 2011. Shareholders may obtain, free of charge, copies of the repurchase documents filed with the Toronto Stock Exchange by writing to RONA's secretary. In the third quarter of 2012, RONA was unable to repurchase its shares since the Corporation was prohibited from trading due to the acquisition proposal received from U.S.-based Lowe's. Since the repurchase program was instituted in November 2011, the Corporation has bought back 10.4 million shares at an average price of \$9.47 per share for a total of \$98.5 million at November 7, 2012. These shares were cancelled.

Despite a slight increase in leveraging, RONA's balance sheet remains strong. As at September 23, 2012, the Corporation's total debt was \$395.4 million compared to \$455.9 million in 2011. The Corporation's net debt amounted to \$345.0 million, compared to \$259.6 million at September 25, 2011. The ratio of total net debt to capital was 15.4%, compared to 10.8% in 2011. The ratio of total debt to EBITDA (past 12 months) remained stable at 1.7.

The table below presents a synopsis of the Corporation's contractual obligations as at September 23, 2012, including off-balance-sheet operating lease agreements used in the normal course of business. The Corporation has also concluded other off-balance-sheet arrangements (such as inventory buyback agreements and guaranteed bank loans), which do not appear in the table. The Corporation has guaranteed a bank loan amounting to \$1.2 million. The loan has an indefinite term and no assets have been given as security. Pursuant to the terms of inventory repurchase agreements, the Corporation is committed towards financial institutions to buy back the inventory of certain customers at an average of 65% of the cost of the inventories to a maximum of \$46.3 million. In the event of recourse, this inventory would be sold in the normal course of the Corporation's operations. These agreements have undetermined periods but may be cancelled by the Corporation on 30 days' notice. In the opinion of Management, the likelihood that significant payments would be incurred as a result of these commitments is low. Finally, letters of credit for imports totalling \$12.1 million were outstanding as at September 23, 2012 for the purchase of various, mainly seasonal, products.

Contractual obligations by term
(as at September 23, 2012)

Contractual obligations	Payments by term (thousands of dollars)				
	Total	Less than 1 year	1-2 years	3-4 years	5 or more years
Long-term loans and credit facilities	368,408	5,409	6,942	351,863	4,194
Obligations under finance leases	1,033	313	489	231	-
Operating leases	976,872	139,251	249,568	198,860	389,193
Other long-term obligations	14,474	7,678	5,250	400	1,146
Total	1,360,787	152,651	262,249	551,354	394,533

Outstanding shares
(as at October 31, 2012)

Common shares	121,403,186
Unexercised options	1,857,500
Total	123,260,686

SUMMARY OF QUARTERLY RESULTS

RONA's results fluctuate significantly from one quarter to another due to the highly seasonal nature of renovation and construction activities. The strongest period of the year is from spring to fall, and over 80% of the Corporation's net annual earnings are generated in the second and third quarters. Furthermore, sales in the first quarter are always lower than in the other three, due to low activity levels in the renovation and construction sectors during the winter. Poor weather conditions can also have a major impact on sales. With the increase in the proportion of our activities related to the retail sector, the seasonal impact of the first quarter has been more pronounced in 2010, 2011 and 2012 than in previous years. The second quarter is always the strongest of the year, followed by the third quarter.

Consolidated quarterly financial results
(in millions of dollars, except earnings per share)

	2012			2011			2010		
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenues	1,336.6	1,417.1	934.9	1,169.2	1,347.1	1,370.0	918.2	1,139.2	1,319.2
EBITDA	41.5	86.6	11.1	37.2	105.4	89.9	8.1	64.8	103.7
EBITDA excluding unusual items	67.2	94.6	11.1	65.9	105.4	89.9	8.1	64.8	103.7
EBITDA excluding unusual items and non-recurring items	79.7	94.6	11.1	65.9	105.4	89.9	8.1	64.8	103.7
Net income (loss) attributable to participating shares	5.1	34.1	(13.3)	(153.6)	47.8	37.0	(17.6)	20.0	48.0
Net income (loss) attributable to participating shares (excluding unusual items)	23.9	43.6	(13.3)	19.7	47.8	37.0	(17.6)	20.0	48.0
Net income (loss) attributable to participating shares (excluding unusual items and non-recurring items)	33.1	43.6	(13.3)	19.7	47.8	37.0	(17.6)	20.0	48.0
Diluted net earnings (loss) per share \$	0.04	0.28	(0.10)	(1.19)	0.36	0.28	(0.13)	0.15	0.36
Diluted net earnings (loss) per share \$ (excluding unusual items)	0.20	0.36	(0.10)	0.15	0.36	0.28	(0.13)	0.15	0.36
Diluted net earnings (loss) per share \$ (excluding unusual items and non-recurring items)	0.27	0.36	(0.10)	0.15	0.36	0.28	(0.13)	0.15	0.36

Annual growth in same-store sales
Last nine quarters

	Q3 2012	Q2 2012	Q1 2012	Q4 2011	Q3 2011	Q2 2011	Q1 2011	Q4 2010	Q3 2010
Retail and Commercial Sector	-1.8%	-0.9%	-0.8%	-2.3%	-5.1%	-9.6%	-12.6%	-6.4%	-2.3%
Total RONA Network	-1.0%	+1.0%	-0.3%	-1.2%	-4.2%	-9.3%	-11.5%	-6.6%	-3.1%

Note: To better represent the performance of the RONA network as a whole, the concept of same-store sales was revised during the quarter and now includes same-store distribution sales to RONA affiliate dealer-owners, who account for more than 25% of total sales.

DIVIDENDS ON PREFERRED SHARES

At its meeting on November 6, 2012, RONA's Board of Directors declared a quarterly dividend of \$0.3300 per share on cumulative 5-year rate reset Class A preferred shares, series 6. The dividend will be paid on December 31, 2012 to holders of record on December 17, 2012.

ACQUISITION PROPOSAL FROM U.S.-BASED LOWE'S

On July 8, 2012, the Corporation received an unsolicited, non-binding proposal from U.S.-based Lowe's regarding the acquisition of all of RONA's issued and outstanding shares at a price of \$14.50 per share. On July 26, 2012, RONA informed Lowe's that the RONA Board of Directors had unanimously determined that this proposal was not in the best interests of RONA and its stakeholders. The July 31, 2012 press release details these events and states that RONA's strategic focus is to execute its business plan with a view to capturing the significant opportunities it sees for the business.

OUTLOOK

- In the coming quarters, we will pursue implementation of our *New Realities, New Solutions* plan and continue our highly disciplined management in line with our three financial priorities: to improve efficiency, optimize the capital structure and increase the return on capital. Particular effort will be devoted to improving the efficiency of our Commercial and Professional Market Division and to adapting the TOTEM banner stores in Alberta to the new RONA proximity store model. As mentioned above, the Corporation deliberately postponed the closing of five big-box stores to ensure the closures are aligned with the opening of new proximity and satellite stores. This postponement decreases the annual recurring benefit from \$10 million to \$6 million for 2012 and from \$30 million to \$25 million for 2013. The Corporation is still in a good position to achieve anticipated annualized benefits of more than \$40 million in 2014.
- The market is still in a period of uncertainty and ambivalence. Although conditions were favourable for renovation projects in the spring, we have seen that consumers have returned to a cautious approach since the end of May. Housing starts have also slowed in recent months, particularly in Quebec, where RONA generates close to half its sales.
- Given the highly promotional and competitive environment, the expected pressure on same-store sales and the impact of inflation on operating and administrative costs, new operational initiatives and efficiency measures are being implemented to address these elements and limit the decrease in profitability in coming quarters. Moreover, our *New Realities, New Solutions* plan will continue to have an increasingly positive impact.

RISKS AND UNCERTAINTIES

No major change has occurred since the publication of *Management's Discussion and Analysis* for second quarter 2012.

CHANGES IN ACCOUNTING POLICIES

There has been no major change since the publication of the annual *Management's Discussion and Analysis* for the fiscal year ended December 25, 2011.

SIGNIFICANT ACCOUNTING ESTIMATES

There has been no major change since the publication of the annual *Management's Discussion and Analysis* for the fiscal year ended December 25, 2011.

INTERNAL CONTROL OVER FINANCIAL REPORTING

RONA has evaluated the effectiveness of internal control over financial reporting as at September 23, 2012 in accordance with the MI 52-109 guidelines. This evaluation has allowed the President and Chief Executive Officer and the Executive Vice President and Chief Financial Officer to conclude that the Corporation's internal control over financial reporting is effective and provides reasonable assurance that the Corporation's financial reporting is reliable and that its consolidated financial statements are prepared in accordance with International Financial Reporting Standards.

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 Corporation 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 Corporation 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 impact that transactions or non-recurring or other special items announced or occurring after the statements are made have on the

Corporation's business. For example, they do not include the impact of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made.

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

The forward-looking statements in this MD&A reflect the Corporation's expectations as at November 7, 2012, and are subject to change after this date. The Corporation 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 November 7, 2012. The reader will find additional information concerning RONA, including the Corporation's Annual Information Form, on the Corporation's website at www.rona.ca or on the SEDAR website at www.sedar.com.

(s) Dominique Boies
Dominique Boies
Executive Vice President and Chief Financial Officer

(s) Robert Dutton
Robert Dutton
President and Chief Executive Officer