

# 3 Consolidated interim report

For the quarter ended September 30, 2007

# RONA

GROWING  
STRONG



## **RONA CONTINUES TO GROW IN THIRD QUARTER 2007**

### **Highlights**

- Sales total \$1.35 billion, up 6.7% over third quarter 2006.
- 11.0% increase in operating income.
- 36-basis-point improvement in EBITDA margin, thanks to additional measures taken to stimulate sales and improve efficiency, as well as acquisitions over the last 12 months.
- Net earnings of \$59.4 million, up 5.9% over 2006.
- Continuation of market consolidation with announcement of an agreement to acquire Dick's Lumber in British Columbia.
- Openings of four new-concept stores in Ontario: two in the third quarter and two others in recent weeks.

**Boucherville (Quebec), November 6, 2007** – RONA (TSX: RON), the largest Canadian distributor and retailer of hardware, home renovation and gardening products, has announced that its financial results are up in the third quarter of 2007. Sales for the quarter totalled \$1.35 billion, up 6.7% over the third quarter of 2006. RONA also improved its operating income by 11.0% during the quarter, and its EBITDA margin climbed 36 basis points, from 8.65% in the third quarter of 2006 to 9.01% in 2007. This increase can be attributed to efficiency gains in the current network of 673 stores and 8 distribution centres, and to contributions from recent acquisitions, including synergies related to these transactions. Net earnings for the third quarter stood at \$59.4 million, an increase of 5.9% over 2006.

“Given the current pressure on sales in the retail industry, I’m satisfied with these third-quarter results,” said RONA president and CEO Robert Dutton. “Our various initiatives to stimulate sales and improve efficiency, along with recent strategic acquisitions, have helped to strengthen our results. We’ll continue to pursue our development in the same way over the next few quarters. We will also continue to invest in employee training and education, and to roll out new services, such as our very popular *Project Guides*, a unique service of in-store expert advisors to help our customers succeed with their renovation projects. RONA plans to keep innovating and surprising Canadian consumers with new concepts and services in the renovation industry.”

## **FINANCIAL HIGHLIGHTS FOR THE THIRD QUARTER 2007**

### **Sales up \$84.7 million, or 6.7%**

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 third quarter of 2007 stood at \$1,350.5 million, or 6.7% more than the \$1,265.8 million posted in 2006. This growth can be largely attributed to acquisitions and store openings. Excluding contributions from major acquisitions, such as Noble Trade, Curtis Lumber, and Mountain Building Centres, consolidated sales increased 2.5%. This organic growth comes from sales generated by new stores opened over the last 12 months and the acquisition of affiliate stores. Excluding the 0.7% decline due to the drop in forest product prices, same-store sales increased by 0.1% this quarter. Significant efforts were also made to stimulate sales and traffic, with promotional activities throughout the RONA network during this period. These efforts resulted in an increase in the average shopping basket over the course of the quarter. But with consumer confidence down in the eastern part of the country for the last few quarters, customers seem to be deferring some renovation projects, resulting in a slight reduction in the number of transactions over the quarter.

### **Operating income up \$12.1 million or 11.0%**

Operating income was \$121.6 million in the third quarter of 2007, up \$12.1 million or 11.0% over 2006. The increase in operating income can be mainly attributed to the primary effects of additional measures taken 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 \$0.7 million, representing the impact of exchange rate changes in the quarter including the application of a new accounting standard for financial instruments also added to the increase in operating income this quarter (for more information on this new standard, please see page 21).

The EBITDA margin rose from 8.65% in 2006 to 9.01% in 2007, an increase of 36 basis points. Most of this increase reflects efficiency gains made across the organization during the quarter. Acquisitions, especially the acquisition of Noble Trade, also contributed to the improvement.

### **Net earnings up 5.9%**

Net earnings for the third quarter of 2007 totalled \$59.4 million, or \$0.51 per share, diluted, compared to \$56.1 million or \$0.48 per share, diluted, in 2006. This is an increase of 5.9% in net earnings and 6.3% 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 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 industry, RONA is pursuing investments in several development projects that will ensure a stronger position in the years ahead.

## **RECENT DEVELOPMENTS**

Since the beginning of the third quarter, we opened six new stores, three proximity stores and three big-boxes. Three of these stores were opened in July. The first, which opened in Pierrefonds, Quebec on July 4, is an 80,000-square-foot new concept of mid-size big-box store with a selection of over 40,000 products. The second, which opened in Edmundston, New Brunswick on July 11, introduces a whole new concept for a 35,000-square-foot proximity store with a selection of 20,000 products. The third, measuring 52,000 square feet and offering over 22,000 products, is located in Leamington, Ontario. In September, a new proximity store opened in Collingwood, Ontario. This store measures 52,000 square feet and offers some 22,000 products. It also has an 89,000-square-foot outdoor lumberyard, a 12,000-square-foot garden centre, and an 8,000-square-foot covered warehouse. Since the end of the third quarter, RONA opened two big-box stores, the first one, on October 24, in Whitby, Ontario, and the other one, on October 31, in Waterdown, Ontario. These two 100,000-square-foot stores introduced the latest RONA innovations in signage and specialized boutiques, as well as the all-new *Project Guide* and installation services.

On September 18, RONA announced the conclusion of an agreement to acquire 100% of the operating assets and real estate of the specialist Dick's Lumber. The company generated more than \$100 million in sales in the last 12 months, as well as solid profit margins. This transaction follows the 2006 Curtis Lumber and Mountain Building Centres acquisitions and the addition of 14 stores in British Columbia in the past two years through store openings and the recruitment of independent dealers. With the addition of Dick's Lumber's three specialized stores in the Vancouver Area, RONA will have 54 retail locations in BC and will continue to open new big-box and proximity stores with innovative concepts, as well as recruiting independent dealers in the years to come. The transaction is expected to close in the fourth quarter of 2007. Dick's Lumber is a good fit with our existing operations in the region. It further diversifies our customer base and doubles our presence in the commercial and professional specialist segment.

## **FINANCIAL HIGHLIGHTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2007**

### **Sales up \$287.5 million or 8.4%**

Consolidated sales for the nine-month period ended September 30, 2007 stand at \$3,698.1 million, or 8.4% more than the \$3,410.6 million posted 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 increased 4.1%. This organic growth stems from sales generated by new stores opened in the last 12 months, affiliate stores acquired by RONA, and increased sales in the distribution network.

Same-store sales increased by 0.9% over the 39-week period ended September 30, 2007, excluding a 1.0% decline due to the drop in the average price of forest products.

### **Operating income up \$27.1 million or 9.1%**

RONA's operating income was \$324.3 million in the nine-month period ended September 30, 2007, up \$27.1 million or 9.1% over 2006. The increase in operating income can be mainly attributed to the primary effects of additional measures taken to support earnings growth, to the contributions of acquisitions in the corporate and franchise store segment and to continued robust performance in the distribution segment. A gain of \$6.4 million, representing the impact of exchange rate changes including the application of a new accounting standard for financial instruments for this nine-month period, also added to the increase in operating income (for more information about this new standard, please see page 21).

The EBITDA margin rose from 8.71% in 2006 to 8.77% in 2007, an increase of 6 basis points. The increase can be attributed to the effect of the exchange rate changes, without which the EBITDA margin would have declined to 8.60% or 11 basis points below 2006. The EBITDA margin was under pressure at the beginning of the year because of lower results in the first quarter due, amongst others, to unfavourable weather conditions and greater seasonal variations than in 2006. Acquisitions in the last 12 months in the construction materials segment, which generate margins lower than our consolidated margin, have also been putting downward pressure on our EBITDA margin since the beginning of the year. These acquisitions generate a very good return on investment, however. Significant efforts were also made to stimulate sales and traffic during the first nine months of 2007, with promotional activities throughout the RONA network. These factors were partly counterbalanced by efficiency improvement measures in the second quarter and by improved margins from acquisitions in the third quarter, after the acquisition of plumbing specialist Noble Trade.

### **Net earnings**

Net earnings for the nine-month period ended September 30, 2007, stood at \$154.6 million or \$1.32 per share, diluted, compared to \$152.5 million in 2006, or \$1.31 per share, diluted. This represents an increase of 1.4% in net earnings or 0.8% in diluted earnings per share. Growth in the second and third quarters has completely compensated for the first-quarter drop caused, amongst others, by stronger seasonal variations and unfavourable weather conditions. In addition, certain investments made to expand the RONA network are not yet fully contributing to the Company's results despite having generated significant depreciation 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 \$89.9 million in the third quarter of 2007, compared to \$79.0 million in the same quarter of 2006. Including working capital items, operations generated \$110.5 million, compared to \$156.2 million in 2006. This reduction is primarily due to the increase in inventory related to the expansion of the network and the distribution centres.

In the third quarter of 2007, we invested \$52.3 million in fixed assets. These investments related mainly 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 the information systems in order to increase our operational efficiency and for the acquisition of land for future development. Funds generated through operations were also used this quarter to reduce bank loans and revolving credit by \$105.9 million.

RONA's balance sheet remains strong. As of September 30, 2007, the total debt-to-capital utilized ratio was 33.0%, compared with 24.5% at the close of the third quarter in 2006. The increase in the ratio over 2006 is related to the debt financing of our most recent acquisitions. This ratio is down from 37.9%, posted at the end of the second quarter of 2007.

RONA's equity/asset ratio stood at 52.1% at the end of the third quarter of 2007, compared to 53.8% at the same time last year.

The Company's operations produce significant cash flows. With relatively low debt and rates fixed for the long term on debentures, we have significant liquidity and can access some \$300 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.

At the beginning of the year, our capital plan projected investments of around \$240 million, including \$175 million for the construction, upgrade or renovation of big-box, proximity and specialized stores, about \$25 million for the expansion of our distribution network and \$40 million for ongoing improvements to our information systems. After nine months, we have invested more than \$160 million.

## OUTLOOK

As described in the *2006 Management's Discussion and Analysis*, 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 at least 25% of the population, are reaching 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 past three years. The Canadian market is, therefore, seeing many new owners with greater borrowing power, representing a highly favourable environment for the home improvement business.

The American economy has been experiencing a major correction in the real estate market over the last few quarters. 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 average housing prices.

Nevertheless, the reduction in starts of single-family homes, combined with a slowdown in the growth of housing resales and the negative effect of the stronger Canadian dollar relative to its American counterpart, is influencing the behaviour of Canadian consumers in relation to renovation projects. In some regions, people are being more prudent in general since the beginning of the year. The rise of the Canadian dollar also seems to have encouraged some consumers to use their disposable income to travel, mainly abroad, deferring renovation projects until later. It is important to note, however, that historically, high volumes of housing resales and residential construction lead to significant renovation expenditures in the following years.

In the short term, the issues mentioned above explain 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 and third quarters, and we are confident that they will continue to prove their worth in the coming quarters.

Sales 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. Our recruitment team is currently studying a number of opportunities across the country, especially in Ontario and in Western Canada. The fourth quarter has historically been the best time to recruit independent dealer-owners. As planned, we will reach our goal of having built 15 new stores in 2007 and having opened 10 of these stores this year. Seven stores have already opened since January. Three stores will open by year-end and five stores under construction will open in early 2008. In terms of acquisitions, we are currently studying 15 opportunities, and management is confident that a number of these opportunities will materialize.

RONA management intends to vigorously pursue the consolidation of the Canadian renovation market and continue to grow the company's market share, maximizing earnings growth as well as return on invested capital. During the third 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 in early 2008.

## **ADDITIONAL INFORMATION**

The *Management Discussion and Analysis* and the quarterly financial statements for third quarter 2007 can be found in the Investor Relations section of the Company's website at [www.rona.ca](http://www.rona.ca), and at [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 another, 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 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 *Management Discussion and Analysis* under the “Risks and Uncertainties” section and in the “Risk Factors” section of the Company’s current Annual Information Form.

The forward-looking statements in this press release reflect the Company’s expectations as of November 5, 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 inc. is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of 673 franchise, affiliate and corporate 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 over \$6 billion in annual retail sales.

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE THIRD QUARTER 2007 THIRTEEN-WEEK AND THIRTY-NINE-WEEK PERIODS ENDED SEPTEMBER 30, 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 November 5, 2007, its network consisted of 673 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 thirty-nine-week periods ended September 30, 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, Canadian economic conditions remained favourable to the construction and renovation industry in the third quarter 2007, with significant regional differences. The economy in the western part of the country continued to benefit from a robust demand for natural resources, while consumer confidence in the eastern region continued to be negatively affected by the rapid climb of the Canadian dollar against its American counterpart.

In terms of interest rates, the Bank of Canada kept its target for the overnight rate steady at 4.5% on October 16. In its most recent publication, the Bank of Canada mentioned that despite tighter credit conditions, momentum in domestic demand in Canada is expected to remain strong. In light of the

combined effect of a weaker US outlook and a higher assumed level of the Canadian dollar, net exports will exert a more significant drag on the economy in 2008 and 2009 than previously expected. Consequently, the Canadian economy can be expected to grow by 2.6% in 2007, 2.3% in 2008 and 2.5% in 2009.

The strength of the Canadian economy is reflected in recent housing resales statistics. According to statistics published by the Canadian Real Estate Association (CREA), resale housing activity has remained high in the main population centres in Canada in the third quarter of 2007, despite a slight drop from the record-high levels in the previous quarter. This high activity level was also stimulated by the average resale price for homes, which increased 11.9% over the last 12 months in Canada's main residential markets.

Housing starts across the country from January to September 2007 were 1.2% higher than during the same period in 2006 in the main population centres. The growth is mainly attributed to multifamily housing, as the construction of single-family homes has dropped 4.7% since the beginning of the year. This drop was largely felt in the Western Provinces and Ontario, while in Quebec and the Atlantic Provinces, construction of single-family dwellings was up.

The reduction in starts of single-family homes, combined with a slowdown in the growth of housing resales and the negative effect of the strengthening Canadian dollar, is influencing the behaviour of Canadian consumers in relation to renovation projects. In some regions, people have been more prudent in general since the beginning of the year. The rise of the Canadian dollar also seems to have encouraged some consumers to use their disposable income to travel abroad, deferring renovation projects until later. It is important to note that historically, however, high volumes of housing resales and residential construction lead to significant renovation expenditures in the following years.

Finally, the negative third-quarter impact of the fall in the average price of forest products was 0.7% of sales in our corporate and franchise stores.

## The RONA network

**Table 1**  
**RONA: Number of stores as at November 5, 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	240
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
	76	337	224	36	673
<b>8 distribution centres</b>					

\* ICI – Institutional, Commercial and Industrial

On November 5, 2007, the RONA network comprised 673 stores. Since the beginning of the year, 35 stores have joined the network, including 24 in Ontario. The acquisition of Noble Trade, which was finalized on April 2, added 19 stores and a distribution centre. Three new big-box stores opened in Ontario: in Scarborough on April 3, in Whitby South on October 24 and in Waterdown on October 31. A new big-box RONA opened as well on July 4 in Pierrefonds, Quebec. Three proximity stores also opened recently: the first in Edmundston, New Brunswick, on July 11, the second in Leamington, Ontario, on July 25, and the most recent in Collingwood, Ontario, on September 26. With the openings in Leamington and Collingwood, two small specialized stores were closed in those areas. Finally, nine affiliate stores have been recruited since the beginning of the year, and two affiliate stores 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

At the start of 2006, we launched the "7-07 Program." 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 annual rate of \$7 billion at the end of 2007. Sales reached nearly \$5 billion at the end of 2005, and they are now over \$6 billion. RONA management intends to vigorously pursue the consolidation of the Canadian renovation market and continue to grow the company's market share, maximizing earnings growth as well as return on invested capital.

Since the beginning of the year, we have announced two major acquisitions. At the start of the second quarter, we closed the acquisition of Noble Trade. Since that time, Noble Trade has recorded sales of over \$82 million and maintained a high operating margin. This acquisition fits perfectly with RONA's strategic plan. After the acquisitions of 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.

On September 18, RONA announced the conclusion of an agreement to acquire 100% of the operating assets and real estate of the Dick's Lumber specialized chain. The company generated more than \$100 million in sales in the last twelve months, as well as solid profit margins. This transaction follows the 2006 Curtis Lumber and Mountain Building Centres acquisitions and the addition of 14 stores in British Columbia in the past two years through store openings and the recruitment of independent dealers. With the addition of Dick's Lumber's three specialized stores in the Vancouver Area, RONA will have 54 retail locations in BC and will continue to open new big-box and proximity stores with innovative concepts, as well as recruiting independent dealers in the years to come. The transaction is expected to close in the fourth quarter of 2007. Dick's Lumber is a good fit with our existing operations. It further

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

diversifies our customer base and doubles our presence in the commercial and professional specialist segment.

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 will materialize, further improving RONA's position in the Canadian home renovation and construction market.

Organic sales growth (consolidated sales less major acquisitions) stood at 2.5% in the third quarter of 2007 and 4.1% for the nine-month period ended September 30, 2007. Organic sales growth was driven primarily by the construction of new corporate stores. Same-store sales increased 0.1% in the third quarter and 0.9% for the nine-month period ended September 30, 2007, excluding the declines due to the drop in the average price of forest products, at 0.7% and 1.0% respectively.

In 2006, eight new stores were opened, which contributed to the growth of sales in the third 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 Manitoba (Winkler) and Alberta (Spruce Grove and Leduc). 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 and opening 10 stores in 2007. Ten of the stores expected to be built will be big-box stores – five in Ontario, one in Alberta, one in the Atlantic Provinces and three in Quebec. Since the beginning of the year, four of these stores have opened, three in Ontario and one in Quebec. The six others are currently under construction. Three proximity stores have opened since the beginning of the year, one in New Brunswick and two in Ontario, and construction is underway on two others in Ontario and Quebec.

Since the beginning of the third quarter, we opened six new stores, three proximity stores and three big-boxes. Three of these stores were opened in July. The first, which opened in Pierrefonds, Quebec on July 4, is an 80,000-square-foot new concept of mid-size big-box store with a selection of over 40,000 products. The second, which opened in Edmundston, New Brunswick on July 11, introduces a whole new concept for a 35,000-square-foot proximity store with a selection of 20,000 products. The second, measuring 52,000 square feet and offering over 22,000 products, is located in Leamington, Ontario. In September, a new proximity store opened in Collingwood, Ontario. This store measures 52,000 square feet and offers some 22,000 products. It also has an 89,000-square-foot outdoor lumberyard, a 12,000-square-foot garden centre, and an 8,000-square-foot covered warehouse. Since the end of the third quarter, RONA opened two big-box stores, the first one, on October 24, in Whitby, Ontario, and the other one, on October 31, in Waterdown, Ontario. These two 100,000-square-foot stores introduced the latest RONA innovations in signage and specialized boutiques, as well as the all-new *Project Guide* and installation services.

For the development of future stores, about 50 sites 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 RONA to synchronize openings to seasonal variations in the market. Our bank of sites is currently evaluated at over \$80 million.

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. Our recruitment team is currently studying a number of opportunities across the country, especially in Ontario and Western Canada. The fourth quarter has historically been the best time to recruit independent dealer-owners.

We are still planning to expand our Calgary Distribution Centre in order to meet our growing distribution needs in Western Canada, but due to 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, improve efficiency and enhance logistics.

During the third 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 in early 2008.

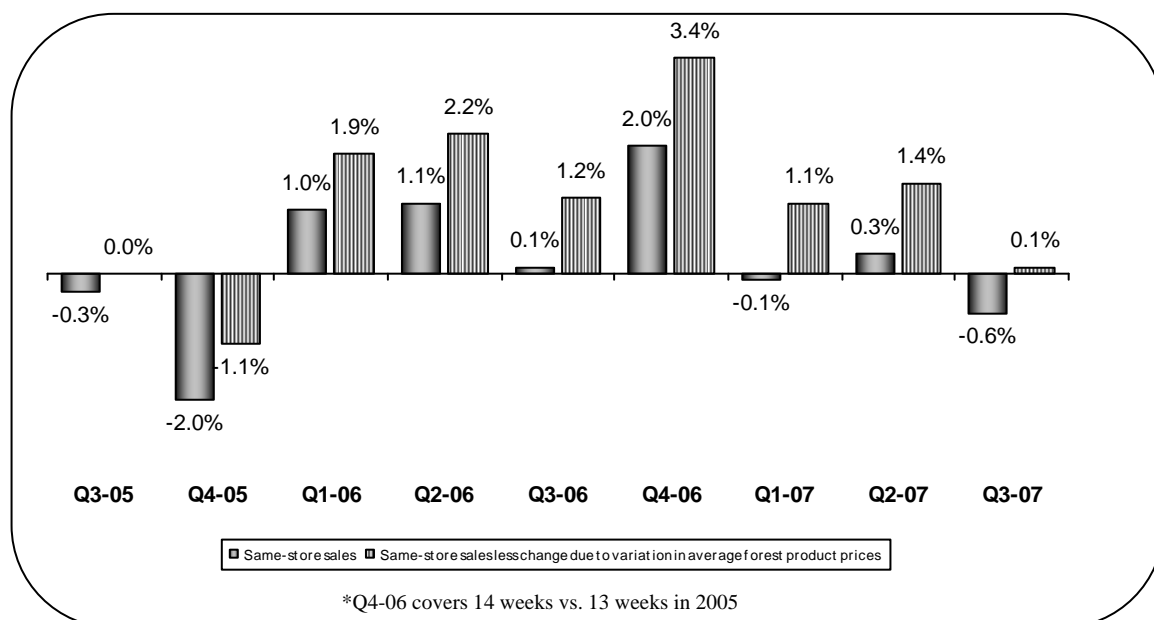
### ANALYSIS OF CONSOLIDATED RESULTS FOR THE THIRD QUARTER OF 2007

#### Sales up \$84.7 million, or 6.7%

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 third quarter of 2007 stood at \$1,350.5 million, or 6.7% more than the \$1,265.8 million posted in 2006. This growth can be largely attributed to acquisitions and store openings. Excluding contributions from major acquisitions, such as Noble Trade, Curtis Lumber, and Mountain Building Centres, consolidated sales rose 2.5%. This organic growth comes from sales generated by new stores opened over the last 12 months and the acquisition of affiliate stores. Excluding the 0.7% decline due to the drop in prices for forest products, same-store sales increased by 0.1% this quarter. Significant efforts were also made to stimulate sales and traffic during the third quarter, with promotional activities throughout the RONA network. These efforts resulted in an increase in the average shopping basket over the course of the quarter. But with consumer confidence down in the eastern part of the country for the last few quarters, customers seem to be deferring some renovation projects, resulting in a slight reduction in the number of transactions over the quarter.

**Annual Sales Growth of Same-Store Sales  
Last Nine Quarters**



**Operating income up \$12.1 million or 11.0%**

Operating income was \$121.6 million in the third quarter of 2007, up \$12.1 million or 11.0% over 2006. The increase in operating income can be mainly attributed to the primary effects of additional measures taken 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 \$0.7 million, representing the impact of exchange rate changes in the quarter including the application of a new accounting standard for financial instruments also added to the increase in operating income this quarter (for more information on this new standard, please see page 21).

The EBITDA margin rose from 8.65% in 2006 to 9.01% in 2007, an increase of 36 basis points. Most of this increase reflects efficiency gains made across the organization during the quarter. Acquisitions, especially the acquisition of Noble Trade, also contributed to the improvement.

**Interest and depreciation**

Interest expense in the third quarter of 2007 was \$8.1 million, compared to \$5.4 million in 2006. This increase is partly due to increased indebtedness related to our expansion, including the recent acquisition of Noble Trade, as well as the rise in interest rates.

Depreciation for the third quarter of 2007 was \$23.5 million, an increase of \$4.3 million over 2006, stemming from acquisitions, investments in our distribution infrastructure, new corporate store start-ups, the renovation of existing corporate stores, and the ongoing improvement of our information systems.

**Income Taxes**

Income taxes for the third quarter amounted to \$28.7 million, for an effective tax rate of 31.9%. Last year, taxes stood at \$27.2 million, for an effective rate of 32.1%.

**Net earnings up 5.9%**

Net earnings for the third quarter of 2007 totalled \$59.4 million, or \$0.51 per share, diluted, compared to \$56.1 million or \$0.48 per share, diluted, in 2006. This is an increase of 5.9% in net earnings and 6.3% 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 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 industry, RONA is pursuing investments in several development projects that will ensure a stronger position in the next few years.

## SEGMENT ANALYSIS FOR THE THIRD QUARTER 2007

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

**Table 2**  
**RONA: Key segment figures for the quarter ended September 30, 2007**

(in thousands of dollars)	Third quarter		\$ Change	% Change
	2007	2006	over 2006	over 2006
<b>Segment sales</b>				
Corporate and franchise stores	<b>1,066,138</b>	977,668	88,470	9.0%
Distribution	<b>611,144</b>	593,034	18,110	3.1%
<b>Total</b>	<b>1,677,282</b>	1,570,702	106,580	6.8%
<b>Intersegment sales and royalties</b>				
Corporate and franchise stores	<b>(3,589)</b>	(3,108)	(481)	15.5%
Distribution	<b>(323,218)</b>	(301,791)	(21,427)	7.1%
<b>Total</b>	<b>(326,807)</b>	(304,899)	(21,908)	7.2%
<b>Sales</b>				
Corporate and franchise stores	<b>1,062,549</b>	974,560	87,989	9.0%
Distribution	<b>287,926</b>	291,243	(3,317)	(1.1%)
<b>Total</b>	<b>1,350,475</b>	1,265,803	84,672	6.7%
<b>Operating income</b>				
Corporate and franchise stores	<b>103,789</b>	91,945	11,844	12.9%
Distribution	<b>17,850</b>	17,594	256	1.5%
<b>Total</b>	<b>121,639</b>	109,539	12,100	11.0%
<b>EBITDA margin</b>				
Corporate and franchise stores	<b>9.77 %</b>	9.43 %	–	34 bp
Distribution	<b>6.20 %</b>	6.04 %	–	16 bp
<b>Total</b>	<b>9.01 %</b>	8.65 %	–	36 bp

**Corporate and franchise stores: sales up 9.0%, operating income up 12.9%**

Retail sales in the corporate and franchise store sector increased by \$88,0 million, or 9.0%, in the third quarter of 2007, rising to \$1,062.5 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 important growth factors. 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), Winnipeg (Manitoba), Barrie and Scarborough (Ontario), Charlemagne and Pierrefonds (Quebec), and Edmundston (New Brunswick). Excluding the 0.7% decline due to the drop in forest product prices, same-store sales increased 0.1% during this period.

Operating income from retail activities increased to \$103.7 million, compared to \$91.9 million in the third quarter of 2006. This increase of \$11.8 million, or 12.9%, stems mainly from recent acquisitions, including the plumbing specialist Noble Trade, acquired at the beginning of the second quarter, and the construction materials specialist Curtis Lumber, acquired in 2006. The increase can also be attributed to additional measures taken to improve operational efficiency, to acquisition synergies, and to the acquisition of affiliate stores.

The segment's EBITDA margin also increased by 34 basis points, from 9.43% in third quarter 2006 to 9.77% in third quarter 2007. Most of this increase is due to efficiency gains achieved in the stores during the third quarter. Acquisitions, especially the acquisition of Noble Trade, also contributed to the improvement.

**Distribution: sales down 1.1%, operating income up 1.5%**

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.

In the third quarter of 2007, distribution sales increased by 3.1% to \$611.1 million. This growth reflects the expansion of the network of corporate and franchise 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 transactions, distribution sales declined by 1.1% to \$287.9 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. Taking this into consideration, distribution sales to affiliates would have increased by 3.8% in the third quarter. Growth would also have been stronger had it not been for the slowdown in demand for forest products and the lower average prices of forest products.

Distribution activities brought in operating income of \$17.9 million in the third quarter of 2007, compared to \$17.6 million in the same quarter of 2006. This is an increase of \$0.3 million or 1.5%.

The EBITDA margin increased from 6.04% in the third quarter of 2006 to 6.20% in 2007. This increase of 16 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 NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2007**

### **Sales up \$287.5 million or 8.4%**

Consolidated sales for the nine-month period ended September 30, 2007, stand at \$3,698.1 million, or 8.4% more than the \$3,410.6 million posted 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 increased by 4.1%. This organic growth stems from sales generated by new stores opened in the last 12 months, affiliate stores acquired by RONA, and increased sales in the distribution network.

Same-store sales increased by 0.9% over the thirty-nine-week period ended September 30, 2007, excluding a 1.0% decline due to the drop in the average price of forest products.

### **Operating income up \$27.1 million or 9.1%**

RONA's operating income was \$324.3 million in the nine-month period ended September 30, 2007, up \$27.1 million or 9.1% over 2006. The increase in operating income can be mainly attributed to the primary effects of additional measures taken to support earnings growth, to the contributions of acquisitions in the corporate and franchise store segment and to continued robust performance in the distribution segment. A gain of \$6.4 million, representing the impact of exchange rate changes including the application of a new accounting standard for financial instruments for this nine-month period, also added to the increase in operating income (for more information about this new standard, please see page 21).

The EBITDA margin rose from 8.71% in 2006 to 8.77% in 2007, an increase of 6 basis points. The increase can be attributed to the effect of the exchange rate changes, without which the EBITDA margin would have declined to 8.60% or 11 basis points below 2006. The EBITDA margin was under pressure at the beginning of the year because of lower results in the first quarter due to unfavourable weather conditions and greater seasonal variations than in 2006. Acquisitions in the last 12 months in the construction materials segment, which generate margins lower than our consolidated margin, have also been putting downward pressure on our EBITDA margin since the beginning of the year. These acquisitions generate a very good return on investment, however. Significant efforts were also made to stimulate sales and traffic during the first nine months of 2007, with promotional activities throughout the RONA network. These factors were partly counterbalanced by efficiency improvement measures in the second quarter and by improved margins from acquisitions in the third quarter, after acquiring plumbing specialist Noble Trade.

### **Interest and depreciation**

Interest expense for the nine-month period ended September 30, 2007 was \$24.1 million, compared to \$16.8 million in 2006. This increase is partly due to increased indebtedness related to our expansion, including the recent acquisition of Noble Trade, and to the rise in interest rates.

Depreciation for the thirty-nine-week period ended September 30, 2007 rose to \$67.5 million, an increase of \$15.3 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 for the nine-month period ended September 30, 2007 were \$74.2 million, for an effective tax rate of 31.9%. Last year, taxes were \$73.0 million, for an effective rate of 32.0%.

## Net earnings

Net earnings for the nine-month period ended September 30, 2007 stood at \$154.6 million, or \$1.32 per share, diluted, compared to \$152.5 million in 2006, or \$1.31 per share, diluted. This represents an increase of 1.4% in net earnings or 0.8% in diluted earnings per share. Growth in the second and third quarters has completely compensated for the first-quarter drop caused by stronger seasonal variations and unfavourable weather conditions. In addition, certain investments made to expand the RONA network are not yet fully contributing to the Company's results despite having generated significant depreciation 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 years ahead.

## SEGMENT ANALYSIS FOR THE NINE-MONTH PERIOD ENDED SEPTEMBER 30, 2007

**Table 3**  
**RONA: Key segment figures for the nine-month period ended September 30, 2007**

(in thousands of dollars)	2007	2006	\$ Change over 2006	% Change over 2006
<b>Segment sales</b>				
Corporate and franchise stores	<b>2,849,646</b>	2,569,331	280,315	10.9%
Distribution	<b>1,806,343</b>	1,708,168	98,175	5.7%
<b>Total</b>	<b>4,655,989</b>	4,277,499	378,490	8.8%
<b>Intersegment sales and royalties</b>				
Corporate and franchise stores	<b>(9,869)</b>	(8,898)	(971)	10.9%
Distribution	<b>(948,049)</b>	(858,003)	(90,046)	10.5%
<b>Total</b>	<b>(957,918)</b>	(866,901)	(91,017)	10.5%
<b>Sales</b>				
Corporate and franchise stores	<b>2,839,777</b>	2,560,433	279,344	10.9%
Distribution	<b>858,294</b>	850,165	8,129	1.0%
<b>Total</b>	<b>3,698,071</b>	3,410,598	287,473	8.4%
<b>Operating income</b>				
Corporate and franchise stores	<b>268,271</b>	244,077	24,194	9.9%
Distribution	<b>55,996</b>	53,058	2,938	5.5%
<b>Total</b>	<b>324,267</b>	297,135	27,132	9.1%
<b>EBITDA margin</b>				
Corporate and franchise stores	<b>9.45 %</b>	9.53 %	–	-8 bp
Distribution	<b>6.52 %</b>	6.24 %	–	28 bp
<b>Total</b>	<b>8.77 %</b>	8.71 %	–	6 bp

### Corporate and franchise stores: sales up 10.9%, operating income up 9.9%

Retail sales in the corporate and franchise stores segment increased by \$279.3 million or 10.9% over the nine-month period ended September 30, 2007, reaching \$2,839.8 million. The acquisition of Noble Trade at the beginning of the second quarter 2007 and the 2006 acquisitions of Chester Dawe, Matériaux Coupal, Curtis Lumber and Mountain Building Centres were major growth factors. 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), Winnipeg (Manitoba), Barrie and Scarborough (Ontario), Charlemagne and Pierrefonds (Quebec), Edmundston (New Brunswick). Excluding the 1.0% decline due to the drop in average forest product prices, same-store sales increased by 0.9%.

Operating income from retail activities stood at \$268.3 million, compared to \$244.1 million in 2006. This increase of \$24.2 million or 9.9% stems mainly from recent acquisitions, including the plumbing specialist Noble Trade and numerous other acquisitions in 2006. The rise can also be attributed to additional measures taken to improve operational efficiency, to acquisitions synergies, and to the acquisition of affiliate stores.

The segment's EBITDA margin stood at 9.45% compared to 9.53% in 2006, a drop of 8 basis points. As explained in the analysis of the consolidated results, the EBITDA margin was under pressure at the beginning of the year because of lower results in the first quarter due to unfavourable weather conditions and greater seasonal variations than in 2006. Acquisitions in the last 12 months in the construction materials segment, which generate margins lower than our consolidated margin, have also been putting downward pressure on our EBITDA margin since the beginning of the year. These acquisitions generate a very good return on investment, however. Significant efforts were also made to stimulate sales and traffic during the first nine months of 2007, with promotional activities throughout the RONA network. These factors were partly counterbalanced by efficiency improvement measures in the second quarter and by improved margins from acquisitions in the third quarter, after acquiring plumbing specialist Noble Trade.

**Distribution: sales up 1.0%, operating income up 5.5%**

Sales in the distribution segment increased by 5.7% during the nine-month period ended September 30, 2007, totalling \$1,806.3 million. This growth reflects the expansion of the network and the performance of 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 1.0%, totalling \$858.3 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. Excluding these acquisitions, distribution sales would have increased by 6.1% during the nine-month period ended September 30, 2007.

Distribution activities produced operating income of \$56.0 million during the nine-month period ended September 30, 2007 compared to \$53.1 million in 2006. The EBITDA margin climbed from 6.24% in 2006 to 6.52% in 2007. This increase of 28 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 and recent efficiency improvement measures.

**CASH FLOWS AND FINANCIAL POSITION**

Operations generated \$89.9 million in the third quarter of 2007, compared to \$79.0 million in the same quarter of 2006. Including working capital items, operations generated \$110.5 million, compared to \$156.2 million in 2006. This reduction is primarily due to the increase in inventory related to the expansion of the network and distribution centres.

In the third quarter of 2007, we invested \$52.3 million in fixed assets. These investments related mainly 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. A portion of the investment was also approved for the continuous improvement of information systems in order to increase our operational efficiency and for the acquisition of land for future development.

Funds generated through operations were also used this quarter to reduce bank loans and revolving credit by \$105.9 million. Table 4 presents a synopsis of the Company's contractual obligations on September 30, 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 (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**  
**(September 30, 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	577,785	3,988	9,546	9,831	554,420
Obligations under capital leases	17,271	6,923	7,908	2,261	179
Operating and other leases	1,292,777	114,163	220,648	202,496	755,470
Other long-term obligations	75,733	32,252	33,083	8,736	1,662
<b>Total</b>	<b>1,963,566</b>	<b>157,326</b>	<b>271,185</b>	<b>223,324</b>	<b>1,311,731</b>

**Table 5**  
**RONA: Shares outstanding**  
**November 2, 2007**

Common shares	115,399,738
Unexercised options	2,937,202
<b>Total</b>	<b>118,336,940</b>

RONA's balance sheet remains strong. As of September 30, 2007, the total debt-to-capital utilized ratio was 33.0%, compared with 24.5% at the close of the third quarter in 2006. The increase in the ratio over 2006 is related to the debt financing of our most recent acquisitions. This ratio is down from 37.9%, posted at the end of the second quarter of 2007.

RONA's equity/asset ratio stood at 52.1% at the end of the third quarter of 2007, compared to 53.8% at the same time last year.

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 \$300 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.

At the beginning of the year, our capital plan projected investments of around \$240 million, including \$175 million for the construction, upgrade or renovation of big-box, proximity and specialized stores, about \$25 million for the expansion of our distribution network and \$40 million for ongoing improvements to our information systems. After nine months, we have invested more than \$160 million.

## QUARTERLY RESULTS

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

	2007			2006				2005	
	Q3	Q2	Q1	Q4*	Q3	Q2	Q1	Q4	Q3
Sales	<b>1,350.5</b>	<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
Operating income	<b>121.6</b>	<b>161.8</b>	<b>40.9</b>	86.7	109.6	145.0	42.6	73.9	98.1
Net earnings	<b>59.4</b>	<b>86.2</b>	<b>9.0</b>	38.1	56.1	80.0	16.4	37.6	53.0
Earnings per share (\$)	<b>0.52</b>	<b>0.75</b>	<b>0.08</b>	0.33	0.49	0.70	0.14	0.33	0.46
Diluted earnings per share (\$)	<b>0.51</b>	<b>0.74</b>	<b>0.08</b>	0.33	0.48	0.69	0.14	0.32	0.46

\* Q4-06 covers 14 weeks vs. 13 weeks for the other quarters

As mentioned at the end of 2006, RONA's sector of activity varies greatly from one quarter to the next. 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 was greater in 2007 than in previous years. 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 five to 10 times as high. The third quarter makes the second biggest contribution to RONA's annual results.

## 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. The Canadian market is, therefore, seeing many new owners with greater borrowing power, representing a highly favourable environment for the home improvement business.

The American economy has been experiencing a major correction in the real estate market over the past few quarters. 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.

Nevertheless, the reduction in starts of single-family homes, combined with a slowdown in the growth of housing resales and the negative impact of the stronger Canadian dollar, is influencing the behaviour of Canadian consumers in relation to renovation projects. In some regions, people have been more prudent in general since the beginning of the year. The rise of the Canadian dollar also seems to have encouraged some consumers to use their disposable income to travel abroad, deferring renovation projects until later. It is important to note, however, that historically, high volumes of housing resales and residential construction lead to significant renovation expenditures in the following years.

In the short term, the issues mentioned above explain 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 and third quarters, and we are confident that they will continue to prove their worth in the coming quarters.

Sales 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. Our recruitment team is currently studying a number of opportunities across the country, especially in Ontario and Western Canada. The fourth quarter has historically been the best time to recruit independent dealer-owners. As planned, we will reach our goal of having built 15 new stores in 2007 and having opened 10 of these stores this year. Seven stores have already opened since January. Three stores will open by year-end and five stores will open in early 2008. In terms of acquisitions, we are currently studying 15 opportunities, and management is confident that a number of these opportunities will materialize.

RONA management intends to vigorously pursue the consolidation of the Canadian renovation market and continue to grow the company's market share, maximizing earnings growth as well as return on invested capital. During the third 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 in early 2008.

#### **RISKS AND UNCERTAINTIES**

There have been no significant changes to the Company's principal risks and uncertainties during the third 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 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.
- 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 thirty-nine-week periods ended September 30, 2007, this policy change resulted in an increase (decrease) in earnings before interest, depreciation and amortization, income taxes and non-controlling interest of \$(0.4) million and \$5.6 million, consisting of the change in the fair value of derivatives embedded in the purchase contracts and the change in inventory.

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 thirty-nine-week periods ended September 30, 2007, this resulted in a decrease in earnings before interest, depreciation and amortization, income taxes and non-controlling interest of \$0.9 million and \$1.4 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 Management Discussion and Analysis*.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

During the quarter ended September 30, 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

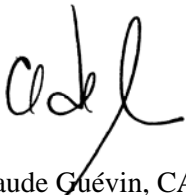
This *Management Discussion and Analysis* includes “forward-looking statements” that involve risks and uncertainties. All statements other than statements of historical facts included in this MD&A, including statements regarding the prospects of the industry and prospects, plans, financial position and 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 refer also 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 *Management Discussion and Analysis* 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 *Management Discussion and Analysis* reflect the Company’s expectations as of November 5, 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 *Management Discussion and Analysis* was prepared on November 5, 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 thirty-nine-week periods ended September 30, 2007 and September 24, 2006  
(Unaudited, in thousands of dollars, except earnings per share)

	<b>Third Quarter</b>		<b>Year-to-date</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
<b>Sales</b>	<b>\$ 1,350,475</b>	\$ 1,265,803	<b>\$ 3,698,071</b>	\$ 3,410,598
Earnings before the following items	<b>121,639</b>	109,539	<b>324,267</b>	297,135
Interest on long-term debt	<b>7,261</b>	4,399	<b>21,671</b>	14,021
Interest on bank loans	<b>793</b>	1,040	<b>2,435</b>	2,778
Depreciation and amortization	<b>23,487</b>	19,183	<b>67,504</b>	52,252
	<b>31,541</b>	24,622	<b>91,610</b>	69,051
Earnings before income taxes and non-controlling interest	<b>90,098</b>	84,917	<b>232,657</b>	228,084
Income taxes	<b>28,730</b>	27,225	<b>74,205</b>	73,000
Earnings before non-controlling interest	<b>61,368</b>	57,692	<b>158,452</b>	155,084
Non-controlling interest	<b>1,958</b>	1,613	<b>3,852</b>	2,613
<b>Net earnings</b>	<b>\$ 59,410</b>	\$ 56,079	<b>\$ 154,600</b>	\$ 152,471
<b>Net earnings per share (Note 10)</b>				
Basic	<b>\$ 0.52</b>	\$ 0.49	<b>\$ 1.34</b>	\$ 1.33
Diluted	<b>\$ 0.51</b>	\$ 0.48	<b>\$ 1.32</b>	\$ 1.31

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

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

For the thirty-nine-week periods ended September 30, 2007 and September 24, 2006

(Unaudited, in thousands of dollars)

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	2007	2006
<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	707,878	518,883
Net earnings	154,600	152,471
<b>Balance, end of period</b>	<b>\$ 862,478</b>	<b>\$ 671,354</b>
<b>Consolidated Contributed Surplus</b>		
Balance, beginning of period	\$ 9,182	\$ 6,618
Compensation cost relating to stock-based compensation plans	1,545	1,768
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>\$ 10,508</b>	<b>\$ 8,469</b>

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

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

For the thirteen-week and thirty-nine-week periods ended September 30, 2007 and September 24, 2006  
(Unaudited, in thousands of dollars)

	Third Quarter		Year-to-date	
	2007	2006	2007	2006
<b>Operating activities</b>				
Net earnings	\$ 59,410	\$ 56,079	\$ 154,600	\$ 152,471
Non-cash items				
Depreciation and amortization	23,487	19,183	67,504	52,252
Derivative financial instruments	328	-	(3,302)	-
Future income taxes	2,341	290	(138)	(285)
Net loss (gain) on disposal of assets	1,070	(74)	889	(1,415)
Compensation cost relating to stock-based compensation plans	537	670	1,545	1,768
Non-controlling interest	1,958	1,613	3,852	2,613
Other items	772	1,239	2,427	2,575
	<b>89,903</b>	<b>79,000</b>	<b>227,377</b>	<b>209,979</b>
Changes in working capital items	20,582	77,221	(78,655)	60,968
Cash flows from operating activities	<b>110,485</b>	<b>156,221</b>	<b>148,722</b>	<b>270,947</b>
<b>Investing activities</b>				
Business acquisitions (Note 3)	(4,679)	(39,763)	(175,340)	(152,927)
Advances to joint ventures and other advances	231	(270)	4,871	(667)
Other investments	-	(1,310)	(588)	(1,310)
Fixed assets	(52,343)	(65,915)	(160,487)	(152,402)
Other assets	(2,694)	(4,372)	(5,925)	(9,191)
Disposal of assets	4,213	1,496	7,133	6,336
Cash flows from investing activities	<b>(55,272)</b>	<b>(110,134)</b>	<b>(330,336)</b>	<b>(310,161)</b>
<b>Financing activities</b>				
Bank loans and revolving credit	(105,932)	(57,317)	139,640	51,915
Other long-term debt	-	1,954	933	3,617
Repayment of other long-term debt and redemption of preferred shares	(4,318)	(3,469)	(18,871)	(11,816)
Issue of common shares	846	827	4,158	3,904
Issue of equity securities to non-controlling interest	-	-	750	735
Redemption of equity securities from non-controlling interest	-	(1,000)	-	(1,000)
Cash flows from financing activities	<b>(109,404)</b>	<b>(59,005)</b>	<b>126,610</b>	<b>47,355</b>
<b>Net increase (decrease) in cash</b>	<b>(54,191)</b>	<b>(12,918)</b>	<b>(55,004)</b>	<b>8,141</b>
Cash, beginning of period	57,673	25,179	58,486	4,120
Cash, end of period	\$ 3,482	\$ 12,261	\$ 3,482	\$ 12,261
<b>Supplementary information</b>				
Interest paid	\$ 14,299	\$ 5,043	\$ 25,622	\$ 14,696
Income taxes paid (received)	\$ 14,490	\$ (1,754)	\$ 77,170	\$ 56,980

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

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

September 30, 2007, September 24, 2006 and December 31, 2006

(In thousands of dollars)

	<b>2007</b>	2006	2006
	<b>September 30</b>	September 24	December 31
	<b>(unaudited)</b>	<b>(unaudited)</b>	
<b>Assets</b>			
<b>Current assets</b>			
Cash	\$ 3,482	\$ 12,261	\$ 58,486
Accounts receivable	304,710	275,262	205,808
Inventory	871,954	771,207	790,496
Prepaid expenses	39,890	26,985	23,454
Derivative financial instruments (Note 2)	2,360	-	-
Future income taxes	14,230	10,571	10,859
	<b>1,236,626</b>	<b>1,096,286</b>	<b>1,089,103</b>
Investments	12,852	18,678	17,642
Fixed assets	743,544	560,554	634,131
Goodwill	437,878	316,573	316,558
Trademarks	3,539	-	1,380
Other assets	26,393	21,432	30,314
Future income taxes	19,889	21,087	19,254
	<b>\$ 2,480,721</b>	<b>\$ 2,034,610</b>	<b>\$ 2,108,382</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank loans	\$ 20,096	\$ 35,618	\$ 21,221
Accounts payable and accrued liabilities	468,130	501,299	394,103
Income taxes payable	4,173	20,994	7,242
Derivative financial instruments (Note 2)	1,441	-	-
Future income taxes	2,827	1,420	3,314
Instalments on long-term debt	31,032	32,599	29,511
	<b>527,699</b>	<b>591,930</b>	<b>455,391</b>
Long-term debt	586,639	287,348	455,310
Other long-term liabilities	23,319	18,819	20,386
Future income taxes	22,239	14,273	19,402
Non-controlling interest	27,745	27,505	23,527
	<b>1,187,641</b>	<b>939,875</b>	<b>974,016</b>
<b>Shareholders' equity</b>			
Capital stock (Note 4)	420,094	414,912	415,717
Retained earnings	862,478	671,354	709,467
Contributed surplus	10,508	8,469	9,182
	<b>1,293,080</b>	<b>1,094,735</b>	<b>1,134,366</b>
	<b>\$ 2,480,721</b>	<b>\$ 2,034,610</b>	<b>\$ 2,108,382</b>

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

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

September 30, 2007 and September 24, 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 September 24, 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, 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**

September 30, 2007 and September 24, 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 thirty-nine-week periods ended September 30, 2007 this policy change resulted in an increase (decrease) in earnings before interest, depreciation and amortization, income taxes and non-controlling interest of \$(448) and \$5,643, consisting of the change in the fair value of derivatives embedded in the purchase contracts and the change in inventory.

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 thirty-nine-week periods ended September 30, 2007, this resulted in a decrease in earnings before interest, depreciation and amortization, income taxes and non-controlling interest of \$880 and \$1,441.

**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**

September 30, 2007 and September 24, 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.

**RONA inc.**

**Notes to Interim Consolidated Financial Statements**

September 30, 2007 and September 24, 2006

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

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**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 \$183,929. 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	\$	62,104
Fixed assets		10,507
Goodwill		121,812
Trademarks		2,321
Future income taxes		755
Current liabilities		(10,046)
Long-term debt		(3,524)
		<hr/>
		183,929
Less: Accrued direct acquisition costs		(258)
Balance of purchase price		(8,331)
Cash consideration paid	\$	<hr/>
		175,340

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

September 30, 2007 and September 24, 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 September 30, 2007:

	September 30, 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	4,127	95
Balance before elimination of reciprocal shareholdings	115,399,738	418,026
Elimination of reciprocal shareholdings	(56,841)	(341)
Balance, end of period	115,342,897	417,685
Deposits on common share subscriptions, net of eliminations of joint ventures <sup>(a)</sup>		2,409
		\$ 420,094

	September 24, 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	399,300	1,918
Issuance in exchange for cash	15,171	340
Balance before elimination of reciprocal shareholdings	114,928,911	413,393
Elimination of reciprocal shareholdings	(54,828)	(299)
Balance, end of period	114,874,083	413,094
Deposits on common share subscriptions, net of eliminations of joint ventures <sup>(a)</sup>		1,818
		\$ 414,912

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

September 30, 2007 and September 24, 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
		<u>\$ 415,717</u>

<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 September 30, 2007 the 2,920,000 options granted have an exercise price of \$3.47 and of this number, 1,449,500 options (1,149,723 options at September 24, 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 thirty-nine-week periods ended September 30, 2007 and September 24, 2006.

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

September 30, 2007 and September 24, 2006

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

**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 September 30, 2007, the 1,700,852 options (1,504,852 options at September 24, 2006) granted have exercise prices ranging from \$14.29 to \$26.87 and of this number, 85,100 options (44,300 options at September 24, 2006) have been exercised and 149,050 options (67,100 options at September 24, 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:

	<b>September 30, 2007</b>	September 24, 2006
Weighted average fair value per option granted	<b>\$ 8.50</b>	\$ 7.71
Risk-free interest rate	<b>3.90%</b>	4.06%
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 \$1,545 for the thirty-nine-week period ended September 30, 2007 (\$1,768 at September 24, 2006).

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

September 30, 2007 and September 24, 2006

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

**4. Capital stock (continued)**

A summary of the situation from December 25, 2005 to September 30, 2007 of the Company's stock option plans and the changes that occurred during the periods then ended is presented below:

	September 30, 2007	
	Options	Weighted average exercise price
Balance, beginning of period	3,162,479	\$10.16
Granted	196,000	23.58
Exercised	(339,327)	4.88
Cancelled	(81,950)	20.85
Balance, end of period	2,937,202	11.36
Options exercisable, end of period	1,895,994	\$ 6.24

	September 24, 2006	
	Options	Weighted average exercise price
Balance, beginning of period	3,131,327	\$ 7.84
Granted	463,652	21.45
Exercised	(399,300)	4.38
Cancelled	(31,950)	18.34
Balance, end of period	3,163,729	10.16
Options exercisable, end of period	2,109,527	\$ 5.53

	December 31, 2006	
	Options	Weighted average exercise price
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**

September 30, 2007 and September 24, 2006

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

**4. Capital stock (continued)**

The following table summarizes information relating to stock options outstanding at September 30, 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
\$21.21	February 24, 2016	388,000	-
\$21.78	September 1, 2016	17,576	4,394
\$23.58	March 8, 2017	179,000	-
\$23.73	April 5, 2015	11,000	-
\$26.87	February 24, 2016	17,576	-
		<u>2,937,202</u>	<u>1,895,994</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 an amount of \$2,480. 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 \$6,055.

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 \$58,029. 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 thirty-nine-week period ended September 30, 2007, the Company recorded an amount of \$8,085 (\$7,205 at September 24, 2006) which was estimated based on the attainment of specified requirements to receive the rebates.

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

September 30, 2007 and September 24, 2006

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

**7. Employee future benefits**

At September 30, 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>Third Quarter</b>		<b>Year-to-date</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
Costs recognized for defined contribution pension plans	\$ 2,074	\$ 1,841	\$ 6,346	\$ 5,515
Costs recognized for defined benefit pension plans	329	362	983	1,048
Net employee future benefit costs	\$ 2,403	\$ 2,203	\$ 7,329	\$ 6,563

**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**

September 30, 2007 and September 24, 2006

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

**9. Segmented information (continued)**

	Third Quarter		Year-to-date	
	2007	2006	2007	2006
<b>Segment sales</b>				
Corporate and franchised stores	\$ 1,066,138	\$ 977,668	\$ 2,849,646	\$ 2,569,331
Distribution	611,144	593,034	1,806,343	1,708,168
Total	1,677,282	1,570,702	4,655,989	4,277,499
<b>Intersegment sales and royalties</b>				
Corporate and franchised stores	(3,589)	(3,108)	(9,869)	(8,898)
Distribution	(323,218)	(301,791)	(948,049)	(858,003)
Total	(326,807)	(304,899)	(957,918)	(866,901)
<b>Sales</b>				
Corporate and franchised stores	1,062,549	974,560	2,839,777	2,560,433
Distribution	287,926	291,243	858,294	850,165
Total	1,350,475	1,265,803	3,698,071	3,410,598
<b>Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest<sup>(a)</sup></b>				
Corporate and franchised stores	130,666	117,114	348,627	314,393
Distribution	23,419	22,588	72,470	70,601
Total	154,085	139,702	421,097	384,994
<b>Earnings before interest, depreciation and amortization, income taxes and non-controlling interest</b>				
Corporate and franchised stores	103,789	91,945	268,271	244,077
Distribution	17,850	17,594	55,996	53,058
Total	121,639	109,539	324,267	297,135
<b>Acquisition of fixed assets</b>				
Corporate and franchised stores	48,905	71,747	154,615	144,574
Distribution	3,575	2,698	15,225	22,879
Total	52,480	74,445	169,840	167,453
<b>Goodwill</b>				
Corporate and franchised stores	(239)	15,284	121,812	64,236
Distribution	-	-	-	-
Total	\$ (239)	\$ 15,284	\$ 121,812	\$ 64,236
<b>Total assets</b>				
Corporate and franchised stores			2,054,373	1,665,599
Distribution			426,348	369,011
Total			\$ 2,480,721	\$ 2,034,610

- (a) Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest for 2006 were restated, as mentioned at December 31, 2006, to reflect the reclassification of certain rent expenses.

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

September 30, 2007 and September 24, 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>Third Quarter</b>		<b>Year-to-date</b>	
	<b>2007</b>	2006	<b>2007</b>	2006
<b>Net earnings</b>	<b>\$ 59,410</b>	\$ 56,079	<b>\$ 154,600</b>	\$ 152,471
<b>Number of shares (in thousands)</b>				
Weighted average number of shares used to compute basic net earnings per share	<b>115,342.4</b>	114,838.1	<b>115,270.2</b>	114,683.8
Effect of dilutive stock options <sup>(a)</sup>	<b>1,397.5</b>	1,648.0	<b>1,497.7</b>	1,780.8
Weighted average number of shares used to compute diluted net earnings per share	<b>116,739.9</b>	116,486.1	<b>116,767.9</b>	116,464.6
<b>Net earnings per share - basic</b>	<b>\$ 0.52</b>	\$ 0.49	<b>\$ 1.34</b>	\$ 1.33
<b>Net earnings per share - diluted</b>	<b>\$ 0.51</b>	\$ 0.48	<b>\$ 1.32</b>	\$ 1.31

(a) At September 30, 2007, 613,152 common share stock options (922,402 options at September 24, 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**

September 30, 2007 and September 24, 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. The Company is currently evaluating 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.

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of 673 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 over \$6 billion in annual retail sales.



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