

# RONA

A culture of service



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## Consolidated interim report

For the quarter ended June 29, 2008



## RONA ANNOUNCES RESULTS FOR SECOND QUARTER 2008

### DESPITE DIFFICULT ECONOMIC CONDITIONS, RONA POSTS SUBSTANTIAL EFFICIENCY GAINS AND A STRONGER BALANCE SHEET

#### Highlights

- Year opens with record recruitment of independent dealers with estimated annual retail sales of over \$100 million
- Gross margin improved by 120 basis points in the second quarter of 2008
- Tight discipline of balance sheet management resulting in lower comparable inventories by \$118 million and reduced bank loans by \$204.8 million in the second quarter of 2008
- \$150 million added to RONA credit facility for a total of \$650 million available as of July 11, 2008
- \$0.69 diluted earnings per share (\$0.72, excluding an unusual charge of \$0.03 in the second quarter of 2008) compared to \$0.74 in 2007

**Boucherville, Quebec, August 12, 2008** – RONA (TSX: RON), the largest Canadian distributor and retailer of hardware, renovation and gardening products, announced a slight increase in its consolidated sales, which stood at \$1,473.3 million in the second quarter of 2008, compared to \$1,469.1 million in 2007. Same-store sales decreased by 4.4% in the quarter. This decrease reflects a drop in consumer activity related to the decline in consumer confidence compared to the corresponding period in 2007. Operating income reached \$157.3 million in the second quarter of 2008, down 2.8% from 2007. Operating margin decreased by 33 basis points at 10.68%. Unusual items related to the cost of store closures net of the gain on disposal of non-core assets amounted to \$2.8 million before interest, taxes, depreciation and amortization were accounted for in the second quarter of 2008. Excluding these unusual items, operating income was \$160.1 million, down 1.0% from 2007. The operating margin declined 14 basis points in 2008 from 11.01% to 10.87% in 2007. Net earnings reached \$80.1 million, or \$0.69 per share, diluted, in the second quarter of 2008, a 7.0% decrease compared to the second quarter of 2007. Excluding unusual items of \$4 million after-tax or \$0.03 per share, net earnings were \$84.1 million, or \$0.72 per share diluted, compared to \$86.2 million, or \$0.74 per share diluted in 2007 – a decline of 2.4%.

These results are significantly superior to the current year's first quarter results, given the highly seasonal nature of construction and renovation activity, as well as the positive effects of the PEP program (productivity, efficiency, profitability) introduced at the beginning of the year.

“Results for the second quarter of 2008 clearly show that the efficiency improvement measures we introduced at the beginning of the year are producing gains and have helped mitigate the downward pressure on sales stemming from the current slowdown in the economy. In current context, our employees have done an outstanding job, significantly improving our gross margin, optimizing sales and efficiency in our stores and distribution network and imposing very rigorous management of the Company's balance sheet,” said RONA President and CEO Robert Dutton.

“The current business environment is highly favourable to ongoing consolidation of our market in Canada, especially through the recruitment of independent dealers that want to join a strong banner with a very promising plan for the future,” Dutton added.

“With 21 new independent dealers representing over \$100 million in annual sales added to the RONA network, we’ve set a record in terms of recruitment. We have a strong pipeline of prospects and we’re confident that we can continue to develop this growth vector vigorously in the second half of the year,” Dutton said.

Under the PEP program (productivity, efficiency, profitability), which represents Phase 1 of its 2008–2011 strategic plan, RONA introduced several promising initiatives during the second quarter of 2008, which have generated the following results:

- Gross margin increase of 120 basis points
- Comparable inventories reduced by \$118 million, or 12.3% compared to the second quarter of 2007
- An 8% increase in private brand sales and a 30% increase in installation service sales
- Bank loans reduced by \$204.8 million
- Sale of non-core assets, generating \$12.8 million

## **FINANCIAL HIGHLIGHTS, SECOND QUARTER 2008**

### **Consolidated sales**

Consolidated sales in the second quarter 2008 stood at \$1,473.3 million, \$4.2 million or 0.3% more than the \$1,469.1 million posted in 2007. This growth can be mainly attributed to acquisitions, store openings and the recruitment of new affiliate dealer-owners. Excluding the contributions of our acquisitions – Dick’s Lumber, Centre de Rénovation André Lessard and Best-MAR – consolidated sales dropped by 2.2%. Sales generated by new stores opened in the last 12 months could not compensate for the drop in same-store sales, which decreased by 4.4% in the second quarter of 2008, excluding the 0.5% decline in the price of forest products. Same-store sales include a positive effect related to statutory holidays, evaluated at 1.1%. This year’s second quarter is two working days longer than in 2007, since the Easter weekend (representing one statutory holiday) occurred this year in the first quarter, while Canada Day (representing a second statutory holiday) will be reflected in the third quarter. Both these holidays had occurred in the second quarter of 2007.

The decrease in sales (excluding acquisitions) stems from an ongoing decline in the level of consumer confidence in Canada, as well as a decline in housing starts and resale of single-unit homes, especially in Alberta. Despite lower figures for in-store transactions, due to the factors mentioned above, RONA’s loyalty-building and sales-boosting activities, combined with employee efforts to offer the best service and shopping experience in our industry, have helped increase our average shopping basket. Sales declined in most product categories, indicating a general drop in consumer spending during the quarter. However, sales of the RONA private brand increased by over 8%, with especially strong growth in Western Canada and in various proximity stores nationwide. This growth can be explained by enhanced sales training for our employees and by the great popularity of the RONA by Design projects, which include a number of private brand products. The strong demand for our Project Guide service is also influencing our private brand sales and our sales of installation services. Second quarter sales of installation services grew by over 30%.

### **Gross margin**

The Company’s gross margin in the second quarter of 2008 improved by 120 basis points, increasing from 28.1% in 2007 to 29.3% in 2008. This growth is the result of better terms and purchasing conditions from our suppliers, a reduction of in-store losses (shrink), an increase in sales of private brand products and better management of product categories.

### **Cost of store closures and gains on disposal of assets (unusual items)**

As part of a vast program to improve efficiency and optimize the existing RONA stores network, the Company made a decision to close four non-performing stores and transfer the business volume from these stores to other nearby RONA corporate stores and affiliates. Operating losses in these stores had amounted to a few million dollars. Two were big box stores: one in Richmond, British Columbia, and the other in Scarborough, Ontario. The others two were small proximity stores operating under the Cashway banner in Ontario.

The estimated total cost of these store closures is \$14.8 million, \$11.6 million of which will affect RONA's 2008 EBITDA, including \$5.0 million representing the present value of future commitments related to these stores. In the second quarter of 2008, the Company entered \$6.9 million as cost of store closures, \$4.2 million of which affected EBITDA. Remaining costs will be booked between now and the end of fiscal 2008.

This decision will allow the Company to eliminate operating losses and transfer business volume to corporate stores and affiliates in better locations with much greater potential for growth and profit. This decision represents a very good return on investment, since the payback period to recover the above-mentioned costs will be very short.

As mentioned at the beginning of the year, RONA had put certain non-strategic assets up for sale as part of Phase 1 of our 2008–2011 strategic plan. In the second quarter, the Company sold off some of these assets, earning a pre-tax gain of \$1.4 million.

### **Consolidated operating income**

Operating income, including unusual items related to the cost of store closures and the gain on disposal of assets mentioned above, was \$157.3 million in the second quarter of 2008, down \$4.5 million or 2.8% from the \$161.8 million figure posted in 2007. EBITDA declined 33 basis points from 11.01% in 2007 to 10.68% in 2008. This decline is largely attributable to the cost of our store closures and downward pressure on same-store sales.

Excluding unusual items, net operating income was \$160.1 million in the second quarter of 2008, down \$1.7 million or 1.0% from 2007, while our EBITDA margin declined 14 basis points, from 11.01% to 10.87%.

This decline is largely the result of downward pressure on sales in the construction and renovation industry due to lower consumer confidence levels. The decline is also attributable to an unfavourable variance related to exchange rate items, rising transportation costs and results from recently opened stores that have not yet reached their full potential. However, the numerous efficiency improvements posted under the PEP program that is the first phase of the 2008–2011 strategic plan have helped offset the impact of these negative factors. In the second quarter, the PEP program has, among other things, allowed us to improve our gross margin, reduce inventory levels and optimize the network of existing stores and distribution centres.

### **Net earnings**

Net earnings, including unusual items in the second quarter of 2008, were \$80.1 million or \$0.69 diluted earnings per share, a 7% decline, compared to \$86.2 million or \$0.74 diluted earnings per share in 2007. The factors that affected operating income also apply to net earnings. Additional factors include an increase in fixed costs related to growth of our store network, particularly amortization related with recent store openings and acquisitions.

Excluding the unusual items related to the cost of store closures and the gain on disposal of assets mentioned above, net earnings were \$84.1 million in the second quarter of 2008, or

\$0.72 diluted earnings per share, compared to \$86.2 million in 2007, or \$0.74 diluted earnings per share – a decline of \$2.1 million or 2.4%. This reflects the major efforts made throughout this quarter to compensate for the negative effects of downward pressure on sales in the construction and renovation industry.

## **FINANCIAL HIGHLIGHTS, FIRST HALF OF 2008**

### **Consolidated sales**

Consolidated sales in the first half of 2008 stood at \$2,384.8 million, a \$37.2 million or 1.6% increase over the \$2,347.6 million figure in 2007. This growth can be mainly attributed to acquisitions, store openings, and the recruitment of new affiliate dealer-owners. Excluding the contributions of our acquisitions – Noble Trade, Dick's Lumber, Centre de Rénovation André Lessard and Best-MAR – consolidated sales declined by 2.9%. Sales generated by new stores opened in the last 12 months could not compensate for the decline in same-store sales, which decreased by 5.8% in the first half of 2008, excluding the 0.5% decline in the price of forest products.

As mentioned above, this decrease in sales (excluding acquisitions) stems from an ongoing decline in the level of consumer confidence in Canada, as well as a decline in housing starts and resales of single-unit homes, especially in Alberta. Despite lower figures for in-store transactions, due to the factors mentioned above, RONA's loyalty-building and sales-boosting activities, combined with employee efforts to offer the best service and shopping experience in our industry, have helped increase our average shopping basket. Sales declined in most product categories, indicating a general drop in consumer activity since the year began. Private brand products and sales of installation services, however, as mentioned in the analysis of second quarter results, experienced strong growth since the beginning of the year.

### **Gross margin**

In the first half of 2008, the Company's gross margin improved by 120 basis points, increasing from 28.2% in 2007 to 29.4% in 2008. This growth is the result of better terms and purchasing conditions from our suppliers, a reduction of in-store losses (shrink), an increase in sales of private brand products and better management of product categories.

### **Consolidated operating income**

Operating income, including unusual items, was \$190.7 million in the first half of 2008, down \$11.9 million or 5.9% from the \$202.6 million figure posted in 2007. The EBITDA margin declined 63 basis points, from 8.63% in 2007 to 8.00% in 2008. This decline is largely attributable to the cost of our store closures and downward pressure on same-store sales.

Excluding unusual items related to the cost of store closures and the gain on disposal of assets posted in the second quarter of 2008, operating income was \$193.5 million in the first half of 2008, down \$9.1 million or 4.5% from 2007. The EBITDA margin declined 51 basis points from 8.63% in 2007 to 8.12% in 2008.

This decline is largely the result of current downward pressure on sales in the construction and renovation industry due to lower consumer confidence levels. This had a more substantial impact on first quarter results than on results in the second quarter, since the first three months are the time of year when store traffic is lowest and variable costs are very difficult to reduce. The decline can also be attributed to results from recently opened stores that have not yet reached their full potential. Rising transportation costs and an unfavourable variance related to exchange rate items explain the rest of the decline. However, as mentioned in the analysis of second-quarter results, the numerous efficiency improvements posted under the PEP program

that is the first phase of the 2008–2011 strategic plan have helped offset the negative effects of these three factors. In the first half of 2008, the PEP program allowed us, among other things, to improve our gross margin, reduce inventories and optimize the network of existing stores and distribution centres.

### **Net earnings**

Net earnings, including unusual items in the first half of 2008, dropped by 14.8% to \$81.1 million or \$0.70 diluted earnings per share, compared to \$95.2 million or \$0.82 diluted earnings per share in 2007. The factors that affected operating income also apply to net earnings. Additional factors include higher fixed costs related to growing our network, particularly amortization related to recent store openings and acquisitions.

Excluding the unusual items related to the cost of store closures and the gain on disposal of assets mentioned in our analysis of second quarter results, net earnings amounted to \$85.1 million in the first half of 2008, or \$0.73 diluted earnings per share, compared to \$95.2 million in 2007, or \$0.82 diluted earnings per share. This is a drop of \$10.1 million or 10.6%, which reflects the downward pressure on sales in the construction and renovation industry. This decline was partly (though not entirely) compensated for by the improved efficiency measures introduced this year.

### **TREASURY AND FINANCIAL POSITION**

Operations generated \$110.6 million in the second quarter of 2008, compared to \$111.5 million in the same quarter of 2007. Excluding variations in working capital items, operations generated \$275.2 million, compared to \$169.8 million in 2007. We should mention that during the second quarter of 2008 same-store and distribution centre inventories decreased by \$118 million.

During the second quarter of 2008, we invested \$47.8 million in fixed assets, compared to \$65.4 million in 2007. These investments related to the expansion of our retail network, for the construction of new stores as well as repairs, renovations and upgrades of existing stores to reflect our new concepts, especially for stores flying the Réno-Dépôt banner. We also authorized part of these investments for ongoing improvements to our information systems, in order to increase operational efficiency. The Company practiced disciplined financial management for the entire quarter and strictly monitored investments in fixed assets. Non-core assets were also sold during this quarter, generating an additional \$12.8 million inflow.

After six months of activity, RONA has invested \$90.0 million in fixed assets – \$18.2 million or 16.8% less than the \$108.1 million invested in 2007. During the second quarter of the current fiscal year, RONA decided to reduce the Company's capital spending program by 20%, in view of market conditions more difficult than expected. Accordingly, we will hold our capital spending at approximately \$200 million, or \$40 million less than the amount initially planned at the beginning of this year. Of this amount, \$160 million will be allocated to store construction, improvements or renovations, and property acquisition, while some \$40 million will be allocated for ongoing upgrades to our information systems. Given our significant improvements in managing merchandise flow and lowering inventories, we have postponed the expansion of the Calgary distribution centre and new needs assessment studies are in progress.

The substantial funds generated by disciplined management of our working capital during this quarter allowed us to reduce our bank loans and revolving credit by \$204.8 million.

RONA's balance sheet remains very strong. On June 29, 2008, the ratio of total debt to capital was 29.8%, compared to 37.9% at the end of the corresponding quarter in 2007. RONA's equity/asset ratio stood at 51.0% at the end of second quarter 2008, compared to 46.7% at the same date in 2007.

The Company's operations produce significant cash flow. With relatively low debt and long-term fixed rates on most of our long-term debt, RONA also has significant liquidity and can borrow many millions more at competitive rates. Our financial resources are therefore sufficient to pursue disciplined development on our four growth vectors: growing sales in our existing store network, construction of new corporate and franchise stores, recruitment of new affiliate stores as well as acquisitions.

## **OUTLOOK**

Three major factors in the second quarter of 2008 influenced the Canadian economy as well as consumer confidence and activity in Canada: the prolonged slowdown of the US economy, ongoing turbulence in global financial markets and sharp increases in the prices of certain basic commodities, particularly energy. This situation, combined with a decrease in housing starts and resale of single-unit homes in Canada, especially in Alberta, will continue to put downward pressure on sales in our industry.

The numerous optimization measures introduced under the PEP program in Phase 1 of our 2008-2011 strategic plan and the various initiatives undertaken to stimulate sales and boost customer loyalty will continue to produce gains over the next quarters. These measures will help offset the negative impact arising from the downward pressure on sales in our industry.

We are keeping our sights on our 2008-2011 financial objectives. We are making good progress toward reaching our key objectives in Phase 1 – the PEP program – with major improvement of our gross margin, rigorous management of assets and liabilities and introduction of numerous measures to improve the performance and efficiency of our stores and distribution centres. Achievement of our low single digit growth objective for average earnings per share in the first half of the plan, however, has turned out to be a bigger challenge than we expected, given a slowdown much greater than anticipated in Canadian economic activity and an even swifter and sharper decline in construction and resale of single-family homes, especially in Alberta. We are nevertheless optimistic about the fundamental factors that support the demand for, and interest in, renovation projects.

Finally, current market conditions represent major potential for consolidation of Canada's construction and renovation market, especially through recruitment of independent stores. So far this year, RONA's recruitment results clearly show that when times are tough, many store owners are eager to join the ranks of a purchasing group that has a major reputation, a dynamic team and a promising development plan.

## **SUBSEQUENT EVENTS**

On July 11, RONA agreed with its principal bankers to increase the amount of its available revolving credit by an additional \$150 million under its existing credit facility, which expires in October 2012. The terms and conditions associated with this additional amount are the same as for the \$500 million available under the existing credit facility. RONA will then be able to access \$650 million in revolving credit as of July 11, 2008. At the end of the second quarter, \$119 million had been drawn on this facility.

## **FURTHER INFORMATION**

The *Management Discussion and Analysis* and financial statements for the second quarter of 2008 can be viewed in the “Investor Relations” section of RONA’s website at [www.rona.ca](http://www.rona.ca) or at [www.sedar.com](http://www.sedar.com). Readers can also access our 2007 Annual Report and Annual Information Form (also available at SEDAR online).

## **NON GAAP PERFORMANCE MEASURE**

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

While EBITDA does not have a meaning 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. Because it is not standardized, EBITDA cannot be strictly compared from one company to the next. Still, we establish it in the same way for the segments identified, and, unless expressly mentioned, our method does not change over time. EBITDA should not be considered separately from, or as a substitute for, other performance measures calculated according to GAAP, but rather as additional information.

In second quarter 2008, RONA accounted for unusual items related to the cost of store closures and gains on disposal of assets. This press release contains variance analysis of EBITDA, EBITDA margin, net earnings and earnings per share excluding these unusual items. While these measures do not have a meaning standardized by GAAP, the management of the Company believes they represent good indicators of the operating performance of existing activities.

## **FORWARD LOOKING STATEMENTS**

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

For more information on the risks, uncertainties and assumptions that would cause the Company’s actual results to differ from current expectations, please also refer to the Company’s public filings available at [www.sedar.com](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 news release reflect the Company’s expectations as of August 11, 2008, and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

## **ABOUT RONA**

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of close to 700 corporate, franchise and affiliate stores of various sizes and formats. With over 27,000 employees working under its family of banners in every region of Canada and more the 15 million square feet of retail space, the RONA store network generates over \$6.3 billion in annual retail sales.

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# MANAGEMENT DISCUSSION AND ANALYSIS FOR SECOND QUARTER 2008

## THIRTEEN-WEEK AND TWENTY-SIX-WEEK PERIODS ENDED JUNE 29, 2008

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

RONA’s sales include:

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

### FINANCIAL STATEMENTS

RONA’s financial statements have been prepared in accordance with Canadian generally accepted accounting principles (“GAAP”) and are expressed in Canadian dollars. The Company has filed its unaudited consolidated financial statements for the second quarter of 2008 with the Canadian Securities Authorities. These statements can be viewed on RONA’s website at [www.rona.ca](http://www.rona.ca) or on the SEDAR website at [www.sedar.com](http://www.sedar.com). This *Management Discussion and Analysis* (MD&A) should be read in conjunction with the Company’s financial statements and related notes.

### NON-GAAP PERFORMANCE MEASURE

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

While EBITDA does not have a meaning 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. Because it is not standardized, EBITDA cannot be strictly compared from one company to the next. Still, we establish it in the same way for the segments identified, and, unless expressly mentioned, our method does not change over time.

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

In second quarter 2008, RONA accounted for unusual items related to the cost of store closures and gains on disposal of assets. This document contains variance analysis of EBITDA, EBITDA margin, net earnings and earnings per share excluding these unusual items. While these measures do not have a meaning standardized by GAAP, the management of the Company believes they represent good indicators of the operating performance of existing activities.

## **UPDATE ON THE COMPANY'S STRATEGIC PLAN**

*RONA's new 2008-2011 strategic plan was unveiled to the financial community in Montreal on February 27 at RONA's 2008 Investors Day. A news release outlining the issues and objectives of the plan was released the same day. Management made a commitment to provide quarterly follow-up of achievements under the plan in our MD&A and to provide an annual follow-up in our Annual Report and at our Annual Shareholders Meeting. This section describes the Company's achievements in second quarter 2008.*

### **Achievements in second quarter 2008**

#### ***Achievement of Phase 1 initiatives: PEP program (productivity, efficiency, profitability)***

**1. Improve sales and profitability of our corporate store network:**

- 120 basis points improvement in gross margin during the second quarter as a result of improved purchasing conditions with our suppliers and better management of product categories.
- Many new initiatives to improve the performance of under-performing stores in terms of merchandising, targeted marketing, in-store losses (shrinkage) and inventory. The process for opening new stores has likewise been improved.
- Network optimization through the closure of two traditional stores and two big-box stores, and the transfer of these stores' business volume to existing RONA corporate stores, RONA affiliates or new stores.

**2. Optimize the supply chain:**

- Same-store and distribution centre inventory reduction of \$118 million in the second quarter (excluding new stores and acquisitions) compared to the second quarter of 2007, resulting in lower operating and financing costs. Inventories were reduced by \$47 million, if new stores and acquisitions are included.
- Optimization of various available distribution channels, especially for imports and continuous flow distribution, resulting in a reduction of nearly \$2 million in logistics costs.

**3. Invest in employee training and mobilization:**

- Numerous training sessions on the Project Guide and related services (installation, RONA by Design, private brand products, the new RONA ECO line and financing services).
- A new staff awareness and training program about in-store losses (shrink) was introduced during this quarter.

**4. Upgrade information systems, including introduction of a new Financial Suite, an improved information system for stores and the supply chain, and high-performance dashboards:**

- Development of new analytical tools for greater efficiency, particularly in supply chain.
- Ongoing implementation of the Financial Suite and an improved management system for stores.

**5. Finalize the integration of the most recent acquisitions and continue to improve the integration process:**

- Ongoing integration of Dick's Lumber and Best-MAR.
- Review of best business practices derived from our 12 major acquisitions over the last 8 years, with the goal of introducing these best practices into retail activities and all new activities relating to the professional and commercial markets.

***Achievements related to sales and customer loyalty improvement objectives for the RONA network:***

- Roll-out of the RONA ECO private brand throughout the network. Many new products are being considered for next year.
- Major emphasis in stores and flyers on private brand products and credit and financing solutions.
- Numerous mass (RONA Super Rendez-Vous) and targeted (direct marketing) Air Miles™ promotions. Combined activities with different Air Miles™ partners in various markets.
- Over 20% growth in sales to customers using Air Miles™ cards since the beginning of 2008.
- Over 20% growth in new RONA Desjardins credit cards issued since the beginning of 2008.
- Over 8% growth in sales of private brand products in the second quarter, representing a penetration rate of nearly 17% of sales.
- Over 30% growth in sales of installation services in the second quarter.
- Development of advertising campaign for the 2008 Beijing Olympics.
- Launch of the revised and upgraded rona.ca website, with many new products available in the online catalogue.
- Evaluation and ongoing adjustment of marketing and merchandising activities in response to rapidly changing market conditions.
- Introduction of new sales programs to step up purchases from our affiliates and accelerate the conversion process for new affiliates.

***Achievements related to 2008-2011 financial objectives***

**1. Remain the industry leader in Canada with a market share of over 20% and special emphasis on Western Canada and Ontario. RONA's market share is currently estimated at 17%:**

- In the last three months, since the publication of our first-quarter results on May 13, RONA has recruited 12 new independent stores, representing estimated annual retail sales of more than \$50 million. Since publication of our results for 2007 in February, RONA has recruited a total of 21 new dealers across Canada in 2008, representing annual retail sales of more than \$100 million. This is the best start of any fiscal year in RONA's history, in terms of recruitments.
- We have opened five new stores since the beginning of year: two big boxes and three proximity stores, including a new 52,000 sq. ft. proximity store in Grimsby, Ontario, which opened on July 23. The business volume of the RONA store formerly operating under the Cashway banner in the municipality of Beamsville has been transferred to this new store.
- We plan to open another proximity store in the next quarter, in Kamloops, British Columbia.

- At the beginning of 2008, RONA began renovations of the big box stores under the Réno-Dépôt banner in Quebec. This \$20 million program, combined with recent store openings – a Réno-Dépôt in Candiac, and new RONA stores in Pierrefonds, Brossard and Thetford Mines, will help us continue to grow our market share in Quebec and further consolidate our leadership position in this market.
- 2. Target low single digit growth in average annual earnings per share (i.e., approximately 5%) during the first half of the plan, a period when we expect to face difficult market conditions, and double digit growth (i.e., above 10%) in the years following:**
- Due to market conditions that were even more difficult than foreseen at the beginning of the year and weather conditions that have been especially bad for construction and renovation activities, RONA posted an 11% decline in diluted earnings per share (excluding unusual items) in first half of 2008, from \$0.82 per share in 2007 to \$0.73 in 2008. This trend, however, was less pronounced in the second quarter, when earnings per share (excluding unusual items) decreased by \$0.02, or 2.7%, compared to the corresponding quarter in 2007.
  - RONA has benefited from the various efficiency improvement measures introduced through the PEP program. In fact, compared to 2007, RONA improved its gross margin by 130 basis points in the first quarter and 120 basis points in the second quarter. We also reduced same-store inventories by \$83 million in the first quarter and \$118 million in the second quarter. Last but not least, we began to optimize our store network by introducing measures to generate better results in underperforming stores. We also closed stores that were losing money and transferred their business volume to other RONA stores nearby.
  - The numerous efficiency improvement measures underway in the PEP program, as well as various initiatives undertaken to stimulate sales and boost customer loyalty, will continue to produce gains over the next quarters, and their effect will gradually increase. These measures will help to compensate for the negative effects of the downward pressure on sales in our industry.
  - Achievement of our low single digit growth objective for average earnings per share in the first half of the plan has turned out to be a bigger challenge than we expected, given a slowdown much greater than anticipated in Canadian economic activity and an even swifter and sharper decline than foreseen in housing starts and resale of single-unit homes, especially in Alberta. We are nevertheless optimistic about the fundamental factors that support the demand for, and interest in, renovation projects. We are also very confident in the various efficiency improvement measures underway in the PEP program. Finally, current market conditions represent major potential for consolidating Canada's construction and renovation market, particularly through recruitment of independent stores.
- 3. Optimize our return on invested capital:**
- Since the beginning of the year, RONA has made considerable efforts to optimize our existing network, rationalize our invested capital and optimize our most recent investments. Among other things, we have sold off non-core assets, closed non-performing stores and significantly reduced inventories. We have also managed our capital spending in a disciplined manner. However, current pressure on sales and profitability has masked these promising initiatives in terms of optimizing our return.

#### **4. Maintain an investment grade credit rating:**

- RONA has managed its balance sheet in a very disciplined manner during this quarter, with the result that our principal debt ratios have improved despite the continuing unfavourable market environment. We also reduced same-store inventory by \$118 million compared to second quarter 2007, and sold certain non-strategic assets for \$12.8 million. These initiatives and an increase in working capital made it possible for the Company to reduce its bank loans by \$204.8 million in the second quarter.
- On June 29, 2008, the ratio of total debt to capital was 29.8%, compared to 37.9% at the end of the corresponding quarter in 2007. The ratio of shareholders' equity to total assets at the end of the second quarter was 51.0%, compared to 46.7% on the same date in 2007. These are exactly the levels expected by the Company.

### **ANALYSIS OF CONSOLIDATED RESULTS**

#### **Economic conditions**

Three major factors influenced the Canadian economy as well as consumer confidence and activity in Canada in second quarter 2008: the prolonged slowdown of the US economy, ongoing turbulence in global financial markets and sharp increases in the prices of certain basic commodities, particularly energy. The first two factors are evolving in tandem, as predicted by the Bank of Canada's *Monetary Policy Report*. Prices of many basic commodities, however, continue to exceed previous forecasts, and this alters the outlook for inflation here in Canada and worldwide.

Even though the pace of global economic expansion has begun to slowdown, so far this year growth has been more vigorous than expected, due largely to the strength of emerging-market economies. Canada's own rate of expansion was much weaker than expected in first quarter 2008, due in large part to a sharp decline in accumulated inventories. According to the most recent Bank of Canada *Monetary Policy Report* published in July 2008, Canada's GDP should grow by only 1% in 2008 instead of 1.4% as predicted in its April report or 1.8% predicted in January. In 2007, the Canadian economy grew by 2.7% of GDP. The Bank further predicts that Consumer Price Index (CPI) inflation will temporarily rise above its 2% target and might not converge to the core inflation rate until the second half of 2009. According to this scenario, the Bank estimates that inflation will remain well contained and the current rate of 3% remains appropriate.

The current interest rate environment remains favourable to high levels of housing starts and resales. However, given the major inflationary pressures, the risk of a rate increase is much greater than expected. As well, the prevailing economic uncertainty, recent statistics in the real estate sector show a slowing of activity in many regions of Canada, particularly in construction and resale of single-unit homes. The multi-unit housing sector, however, continues to grow. RONA has relatively low exposure to this market, but is rapidly growing its presence with recent acquisitions and the creation of a commercial and professional sector.

During the first half of 2008, single-unit housing starts experienced a 13.1% decline in Canada's urban areas, according to CMHC estimates. The decline was particularly severe in Alberta, where single-unit housing starts were down by 47%, due to an unusually high inventory of unsold houses caused by a major increase in the number of new homes combined with a shift in demand toward more affordable homes. At the same time, part of Alberta's population has moved to high-growth areas in Saskatchewan and Manitoba, where the cost of accommodation is lower.

In terms of the sale of existing homes, the trend is also downward, with an estimated 13.3% fewer units sold in Canada's main urban areas during the first quarter of 2008 than were sold in 2007. The average price, however, increased by 3.2% during the same period.

Despite these recent declines, housing starts and resales remain at historically high levels. Canada's construction and renovation market continues by and large to hold its own, and is much more robust than the US market, which continues to report a major drop in activity. It is worth recalling that existing trends are still favourable to renovation in Canada. Over 65% of Canada's homes are over 25 years old, the Baby Boom generation (roughly 30% of the population) is making major investments in their homes and secondary dwellings, and interest in home decoration and gardening remains strong. There is also a major trend taking shape toward outdoor living, calling for decoration of exterior home areas. Finally, more and more Canadians are looking for one-stop solutions for their home renovation projects and unbeatable service in a store with a friendly atmosphere in a location near their residence. By taking account of these trends, RONA is creating new store formats, choosing appropriate products and developing innovative services.

Again during the second quarter, weather conditions were unfavourable for construction and renovation in many regions. In Alberta, there was snow on the ground for much of April, while practically everywhere in the country a large number of rainy days were observed in June, particularly on weekends. Also during this quarter, there have been no long periods of hot weather, which generally has a positive effect on sales of seasonal products and items related to air conditioning.

The current business environment is very favourable for consolidation of Canada's construction and renovation market, especially through recruitment of independent dealers. We might add that RONA's recruitment results so far this year clearly show that when times are tough, many store owners are eager to join the ranks of a purchasing group that has a strong awareness, a dynamic team and a promising development plan.

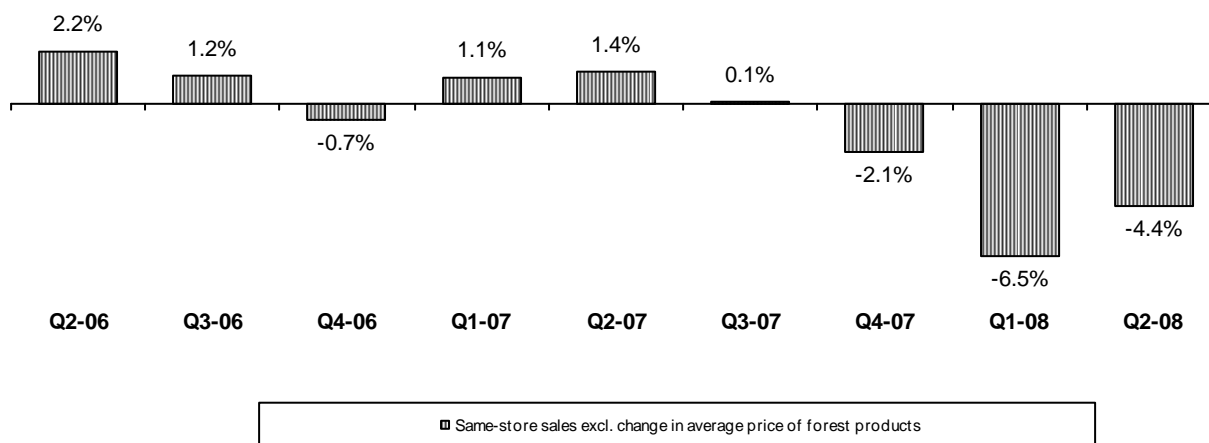
### **Consolidated sales**

Consolidated sales in second quarter 2008 stood at \$1,473.3 million, \$4.2 million or 0.3% more than the \$1,469.1 million posted in 2007. This growth can be mainly attributed to acquisitions, store openings and the recruitment of new affiliate dealer-owners. Excluding the contributions of our acquisitions – Dick's Lumber, Centre de Rénovation André Lessard and Best-MAR – consolidated sales dropped by 2.2%. Sales generated by new stores opened in the last 12 months could not compensate for the drop in same-store sales, which decreased by 4.4% in second quarter 2008, excluding the 0.5% decline in the price of forest products. Same-store sales include a positive effect related to statutory holidays, evaluated at 1.1%. This year's second quarter is two working days longer than in 2007, since the Easter weekend (representing one statutory holiday) occurred this year in the first quarter, while Canada Day (representing a second statutory holiday) will be reflected in the third quarter. Both these holidays had occurred in second quarter 2007.

As mentioned, this decrease in sales (excluding acquisitions) stems from an ongoing decline in the level of consumer confidence in Canada, as well as a decline in housing starts and resale of single-unit homes, especially in Alberta. Despite lower figures for in-store transactions, due to the factors mentioned above, RONA's loyalty-building and sales-boosting activities, combined with employee efforts to offer the best service and shopping experience in our industry, have helped increase our average shopping basket. Sales declined in most product categories, indicating a general drop in renovation projects during the second quarter. However, sales of the RONA private brand increased by over 8%, with especially strong growth in Western Canada

and in various proximity stores nationwide. This growth can be explained by enhanced sales training for our employees and by the great popularity of the RONA by Design projects, which include a number of private brand products. The strong demand for our Project Guide service is also influencing our private brand sales and our sales of installation services. We should add that second quarter sales of installation services grew by over 30%.

### Annual growth in same-store sales Last nine quarters



Note: Figures for Q4-06 and Q4-07 have been adjusted for the impact of the 14th week in Q4-06.

### Gross margin

The Company's gross margin in second quarter 2008 improved by 120 basis points, increasing from 28.1% in 2007 to 29.3% in 2008. This growth is the result of better terms and purchasing conditions from our suppliers, a reduction of in-store losses (shrink), an increase in sales of private brand products and better management of product categories.

### Cost of store closures and gains on disposal of assets (unusual items)

As part of a vast program to improve efficiency and optimize the existing RONA stores network, the Company made a decision to close four non-performing stores and transfer the business volume from these stores to other nearby RONA corporate stores and affiliates. Operating losses in these stores had amounted to several million dollars. Two were big box stores: one in Richmond, British Columbia, and the other in Scarborough, Ontario. The others two were small proximity stores operating under the Cashway banner in Ontario.

The estimated total cost of these store closures is \$14.8 million, \$11.6 million of which will affect RONA's 2008 EBITDA, including \$5.0 million representing the present value of future commitments related to these stores. In second quarter 2008, the Company recorded \$6.9 million as cost of store closures, \$4.2 million of which affected EBITDA. Remaining costs will be booked by the end of fiscal 2008.

This decision will allow the Company to eliminate operating losses and transfer business volume to corporate stores and affiliates in better locations with much greater potential for growth and profit. This decision represents a very good return on investment, since the payback period to recover the above-mentioned costs will be very short.

As mentioned at the beginning of the year, RONA had put certain non-strategic assets up for sale as part of Phase 1 of our 2008–2011 strategic plan. In the second quarter, the Company sold off some of these assets, earning a pre-tax gain of \$1.4 million.

### **Consolidated operating income**

Operating income, including unusual items related to the cost of store closures and the gain on disposal of assets mentioned above, was \$157.3 million in second quarter 2008, down \$4.5 million or 2.8% from the \$161.8 million figure posted in 2007. EBITDA declined 33 basis points from 11.01% in 2007 to 10.68% in 2008. This decline is largely attributable to the cost of our store closures and downward pressure on same-store sales.

Excluding unusual items, net operating income was \$160.1 million in second quarter 2008, down \$1.7 million or 1.0% from 2007, while our EBITDA margin declined 14 basis points, from 11.01% to 10.87%.

This decline is largely the result of downward pressure on sales in the construction and renovation industry due to lower consumer confidence levels. The decline is also attributable to an unfavourable variance related to exchange rate items, rising transportation costs and results from recently opened stores that have not yet reached their full potential. However, the numerous efficiency improvements posted under the PEP program that is the first phase of the 2008–2011 strategic plan have helped offset the impact of these negative factors. In the second quarter, the PEP program has, among other things, allowed us to improve our gross margin, reduce inventory levels and optimize the network of existing stores and distribution centres.

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

Interest on long-term debt and bank loans in second quarter 2008 remained stable at \$9.0 million, compared to the second quarter in 2007. The higher interest costs resulting from the increase in debt related to the Company's expansion, particularly the acquisition of Noble Trade and Dick's Lumber, were compensated for by very disciplined management of working capital and capital spending, as well as by lower interest rates.

Amortization and depreciation for the second quarter of 2008 amounted to \$29.1 million, compared to \$22.4 million in 2007, an increase of \$6.7 million. This includes a charge of \$2.7 million booked in this quarter, related to our non-performing store closures. Excluding this amount, amortization and depreciation amounted to \$26.4 million in second quarter 2008, an increase of \$4.0 million or 17.9% over 2007. This stems from new corporate store start-ups, acquisitions, the renovation program for existing corporate stores and ongoing improvement of our information systems.

### **Income taxes**

Income taxes for the second quarter amount to \$36.7 million, for an effective tax rate of 30.8%. Last year, income taxes were \$41.8 million, for an effective tax rate of 32.1%. This lower figure is due largely to a cut in the federal basic income tax.

### **Net earnings**

Net earnings, including unusual items in second quarter 2008, were \$80.1 million or \$0.69 diluted earnings per share, a 7% decline, compared to \$86.2 million or \$0.74 diluted earnings per share in 2007. The factors that affected operating income also apply to net earnings. Additional factors include an increase in fixed costs related to growth of our store network, particularly amortization related with recent store openings and acquisitions.

Excluding the unusual items related to the cost of store closures and the gain on disposal of assets mentioned above, net earnings were \$84.1 million in second quarter 2008, or \$0.72 diluted earnings per share, compared to \$86.2 million in 2007, or \$0.74 diluted earnings per share – a decline of \$2.1 million or 2.4%. This reflects the major efforts made throughout this quarter to compensate for the negative effects of downward pressure on sales in the construction and renovation industry.

## SEGMENT ANALYSIS

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

### RONA: Key segment figures for the second quarter ended June 29, 2008

(In thousands of dollars)	Second quarter 2008	Second quarter 2007	\$ Change over 2007	% Change over 2007	% Change over 2007 (ex. unusual items)
<b>Segment sales</b>					
Corporate and franchise stores	1,130,019	1,126,279	3,740	0.3%	–
Distribution	716,982	715,705	1,277	0.2%	–
<b>Total</b>	<b>1,847,001</b>	<b>1,841,984</b>	<b>5,017</b>	<b>0.3%</b>	<b>–</b>
<b>Intersegment sales and royalties</b>					
Corporate and franchise stores	–	–	–	–	–
Distribution	(373,747)	(372,884)	(863)	0.2%	–
<b>Total</b>	<b>(373,747)</b>	<b>(372,884)</b>	<b>(863)</b>	<b>0.2%</b>	<b>–</b>
<b>Sales</b>					
Corporate and franchise stores	1,130,019	1,126,279	3,740	0.3%	–
Distribution	343,235	342,821	414	0.1%	–
<b>Total</b>	<b>1,473,254</b>	<b>1,469,100</b>	<b>4,154</b>	<b>0.3%</b>	<b>–</b>
<b>Operating income</b>					
Corporate and franchise stores	130,524	135,103	(4,579)	(3.4%)	(1.3%)
Distribution	26,760	26,675	85	0.3%	0.3%
<b>Total</b>	<b>157,284</b>	<b>161,778</b>	<b>(4,494)</b>	<b>(2.8%)</b>	<b>(1.0%)</b>
<b>EBITDA margin</b>					
Corporate and franchise stores	11.55 %	12.00 %	–	-45 b.p.	-20 b.p.
Distribution	7.80 %	7.78 %	–	+2 b.p.	+2 b.p.
<b>Total</b>	<b>10.68 %</b>	<b>11.01 %</b>	<b>–</b>	<b>-33 b.p.</b>	<b>-14 b.p.</b>

Note: In first quarter 2008, the Company reviewed its segmented information analysis method and, as a result, modified the presentation of such information between segments. The 2007 comparable period was adjusted accordingly.

### Corporate and franchise stores: sales up 0.3%, operating income (excluding unusual items) down 1.3% and EBITDA margin (excluding unusual items) down 20 basis points

Retail sales in the corporate and franchise store segment increased by \$3.7 million, or 0.3% in second quarter 2008, reaching \$1,130.0 million. Acquisitions completed in 2007 and early 2008 (i.e., Dick's Lumber and Centre de Rénovation André Lessard in late 2007 and Best-MAR in early 2008) contributed to this growth. Excluding contributions from these acquisitions, consolidated sales declined by 2.2%. Sales generated by new stores opened in the last 12 months have not been able to compensate for the drop in same-store sales, which declined by 4.4% in second quarter 2008, not counting the decline in the average price of forest products.

Same-store sales include a positive effect related to the timing of statutory holidays this year, which added two more working days in this quarter than in 2007, as mentioned above.

This decrease in sales (excluding acquisitions) stems from an ongoing decline in the level of consumer confidence in Canada, as well as a sharp decline in construction and resale of single-unit homes, especially in Alberta. Despite lower figures for in-store transactions, due to the factors mentioned above, RONA's loyalty-building and sales-boosting activities, combined with employee efforts to offer the best service and shopping experience in our industry, have helped increase our average customer shopping basket. Sales declined in most product categories, indicating a general decline in consumer activity during this quarter. We should mention, however, that sales of the RONA private brand increased by over 8%, with especially strong growth in Western Canada and in various proximity stores nationwide. This growth can be explained by enhanced sales training for our employees and by the great popularity of the RONA by Design projects, which include a number of private brand products. The strong demand for our Project Guide service is also influencing our private brand sales and our sale of installation services. We should add that second quarter sales of installation services grew by over 30% during the second quarter of 2008.

Operating income from retail activities (including unusual items related to the cost of store closures and the gain from disposal of assets mentioned above in our analysis of consolidated results) was \$130.5 million, compared to \$135.1 million in second quarter 2007. Despite an improvement in gross margin and other gains in efficiency, the EBITDA margin for retail activities declined by 45 basis points, from 12.00% in 2007 to 11.55% in 2008. Excluding unusual items, operating income was \$133.4 million in second quarter 2008, a decline of \$1.7 million or 1.3% from 2007. The EBITDA margin declined 20 basis points from 12% in 2007 to 11.80% in 2008. This decline can be attributed to downward pressure on same-store sales and the results of recently opened stores that have not yet reached their full potential, as well as to the effects of an unfavourable exchange rate.

**Distribution: Sales up 0.1%, operating income up 0.3% and EBITDA margin up 2 basis points**

Distribution sales, excluding intersegment activities increased by 0.1% to \$343.2 million in second quarter 2008.

Between the two comparison years, we acquired all or a majority of the shares of some affiliates, in order to strengthen RONA's presence in certain areas of the country. On a comparable basis, excluding these acquisitions, distribution sales would have increased by 0.5% in second quarter 2008. This increase is the result of our recruitment of independent dealers. However, this increase was partially offset by a decline in activity in our industry compared to second quarter 2007, as well as the decline in the average price of forest products

Distribution activities generated operating income of \$26.8 million in second quarter 2008, compared to \$26.7 million in the same quarter of 2007. The EBITDA margin rose by 2 basis points. Growth of operating income was limited by lower activity levels in general, the negative impact of the exchange rate, a change in the mix of products being distributed and an increase in transportation costs.

These slight increases in operating income and margin mask a major improvement in the efficiency of the Company's distribution operations. This improvement can be attributed to better supply and demand management, resulting in a reduction of space required for distribution. It is also due to optimization of various available distribution channels, especially for imports and continuous flow distribution, resulting in a reduction in logistics costs. These improvements have

also allowed us to reduce inventory levels in our distribution centres by \$54 million the second quarter, compared to second quarter 2007.

## **ANALYSIS OF CONSOLIDATED RESULTS FOR FIRST HALF OF 2008**

### **Consolidated sales**

Consolidated sales in first half of 2008 stood at \$2,384.8 million, a \$37.2 million or 1.6% increase over the \$2,347.6 million figure in 2007. This growth can be mainly attributed to acquisitions, store openings, and the recruitment of new affiliate dealer-owners. Excluding the contributions of our acquisitions – Noble Trade, Dick’s Lumber, Centre de Rénovation André Lessard and Best-MAR – consolidated sales declined by 2.9%. Sales generated by new stores opened in the last 12 months could not compensate for the decline in same-store sales, which decreased by 5.8% in first half of 2008, excluding the 0.5% decline in the price of forest products.

As mentioned above, this decrease in sales (excluding acquisitions) stems from an ongoing decline in the level of consumer confidence in Canada, as well as a sharp decline in construction and resale of single-unit homes, especially in Alberta. Despite lower figures for in-store transactions, due to the factors mentioned above, RONA’s loyalty-building and sales-boosting activities, combined with employee efforts to offer the best service and shopping experience in our industry, have helped increase our average shopping basket. Sales declined in most product categories, indicating a general drop in consumer activity since the year began. Private brand products and sales of installation services, however, as mentioned in the analysis of second quarter results, experienced strong growth since the beginning of the year.

### **Gross margin**

In first half of 2008, the Company’s gross margin improved by 120 basis points, increasing from 28.2% in 2007 to 29.4% in 2008. This growth is the result of better terms and purchasing conditions from our suppliers, a reduction of in-store losses (shrinkage), an increase in sales of private brand products and better management of product categories.

### **Consolidated operating income**

Operating income, including unusual items, was \$190.7 million in first half of 2008, down \$11.9 million or 5.9% from the \$202.6 million figure posted in 2007. The EBITDA margin declined 63 basis points, from 8.63% in 2007 to 8.0% in 2008. This decline is largely attributable to the cost of our store closures and downward pressure on same-store sales.

Excluding unusual items related to the cost of store closures and the gain on disposal of assets posted in second quarter 2008, operating income was \$193.5 million in first half of 2008, down \$9.1 million or 4.5% from 2007. The EBITDA margin declined 51 basis points from 8.63% in 2007 to 8.12% in 2008.

This decline is largely the result of current downward pressure on sales in the construction and renovation industry due to lower consumer confidence levels. This had a more substantial impact on first quarter results than on results in the second quarter, since the first three months are the time of year when store traffic is lowest and variable costs are very difficult to reduce. The decline can also be attributed to results from recently opened stores that have not yet reached their full potential. Rising transportation costs and an unfavourable variance related to exchange rate items explain the rest of the decline. However, as mentioned in the analysis of second-quarter results, the numerous efficiency improvements posted under the PEP program that is the first phase of the 2008–2011 strategic plan have helped offset the negative effects of these three factors. In the first half of 2008, the PEP program allowed us, among other things, to

improve our gross margin, reduce inventories and optimize the network of existing stores and distribution centres.

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

Interest charges on long-term debt and bank loans in first half of 2008 were slightly higher, at \$16.9 million, compared to \$16.1 million in the corresponding period of 2007. These higher interest costs, which are the result of a higher debt load related to our expanding store network, particularly the acquisition of Noble Trade in April 2007 and Dick's Lumber in December 2007, were partly (though not entirely) compensated for by very disciplined management of working capital and capital spending, as well as by lower interest rates.

Amortization and depreciation for the first half of 2008 amounted to \$54.4 million, compared to \$44.0 million in 2007, an increase of \$10.4 million. As mentioned above, a charge of \$2.7 million was booked in the second quarter, related to non-performing store closures. Excluding this amount, amortization and depreciation amounted to \$51.7 million in first half of 2008, an increase of \$7.7 million or 17.5% over 2007. This stems from new corporate store openings, acquisitions, our renovation program for existing corporate stores and ongoing improvement of our information systems as well as investment in our distribution infrastructure.

### **Income taxes**

Income taxes for the first half of 2008 amounted to \$36.8 million, for an effective tax rate of 30.8%. Last year, income taxes were \$45.5 million, for an effective tax rate of 31.9%. This decrease in income tax is due largely to a cut in the federal basic income tax.

### **Net earnings**

Net earnings, including unusual items in first half of 2008, dropped by 14.8% to \$81.1 million or \$0.70 diluted earnings per share, compared to \$95.2 million or \$0.82 diluted earnings per share in 2007. The factors that affected operating income also apply to net earnings. Additional factors include higher fixed costs related to growing our network, particularly amortization related to recent store openings and acquisitions.

Excluding the unusual items related to the cost of store closures and the gain on disposal of assets mentioned in our analysis of second quarter results, net earnings amounted to \$85.1 million in first half of 2008, or \$0.73 diluted earnings per share, compared to \$95.2 million in 2007, or \$0.82 diluted earnings per share. This is a drop of \$10.1 million or 10.6%, which reflects the downward pressure on sales in the construction and renovation industry. This decline was partly (though not entirely) compensated for by the improved efficiency measures introduced this year.

## SEGMENT ANALYSIS, FIRST HALF OF 2008

### RONA: Key segment figures for the first half of 2008 ended June 29, 2008

(In thousands of dollars)	2008	2007	\$ Variation over 2007	% Variation over 2007	% Variation over 2007 (ex. unusual items)
<b>Segment sales</b>					
Corporate and franchise stores	<b>1,813,048</b>	1,768,029	45,019	2.5%	–
Distribution	<b>1,208,383</b>	1,210,678	(2,295)	(0.2 %)	–
<b>Total</b>	<b>3,021,431</b>	2,978,707	42,724	1.4%	–
<b>Intersegment sales and royalties</b>					
Corporate and franchise stores	–	–	–	–	–
Distribution	<b>(636,643)</b>	(631,111)	(5,532)	0.9%	–
<b>Total</b>	<b>(636,643)</b>	(631,111)	(5,532)	0.9%	–
<b>Sales</b>					
Corporate and franchise stores	<b>1,813,048</b>	1,768,029	45,019	2.5%	–
Distribution	<b>571,740</b>	579,567	(7,827)	(1.4%)	–
<b>Total</b>	<b>2,384,788</b>	2,347,596	37,192	1.6%	–
<b>Operating income</b>					
Corporate and franchise stores	<b>149,789</b>	159,905	(10,116)	(6.3 %)	(4.5 %)
Distribution	<b>40,896</b>	42,723	(1,827)	(4.3 %)	(4.3 %)
<b>Total</b>	<b>190,685</b>	202,628	(11,943)	(5.9 %)	(4.5 %)
<b>EBITDA margin</b>					
Corporate and franchise stores	<b>8.26 %</b>	9.04 %	–	-78 b.p.	-62 b.p.
Distribution	<b>7.15 %</b>	7.37 %	–	-22 b.p.	-22 b.p.
<b>Total</b>	<b>8.00 %</b>	8.63 %	–	-63 b.p.	-51 b.p.

Note: In first quarter 2008, the Company reviewed its segmented information analysis method and, as a result, modified the presentation of such information between segments. The 2007 comparable period was adjusted accordingly.

#### **Corporate and franchise stores: sales up 2.5%, operating income (excluding unusual items) down 4.5% and EBITDA margin (excluding unusual items) down 62 basis points**

Retail sales in the corporate and franchise store segment increased by \$45.0 million or 2.5% in first half of 2008, reaching \$1,813.0 million. Acquisitions completed in 2007 and early 2008 (i.e., Noble Trade early in 2007, Dick's Lumber and Centre de Rénovation André Lessard in late 2007 and Best-MAR in early 2008) contributed to this growth. Excluding contributions from these acquisitions, sales in this segment declined by 3.2%. Sales generated by new stores opened in the last 12 months have not been able to compensate for the drop in same-store sales, which declined by 5.8% in first half of 2008, not counting the decline in the average price of forest products.

As mentioned in the analysis of second quarter results, this decrease in sales (excluding acquisitions) stems from an ongoing decline in the level of consumer confidence in Canada, as well as a sharp decline in housing starts and resale of single-unit homes, especially in Alberta.

Operating income from retail activities was \$149.8 million, compared to \$159.9 million in first half of 2007. Despite a major gross margin increase and other gains in efficiency, the EBITDA margin for retail activities declined by 78 basis points from 9.04% in 2007 to 8.26% in 2008.

Excluding unusual items related to the cost of store closures and the gain from disposal of assets mentioned in the analysis of consolidated results, operating income amounted to \$152.6 million in first half of 2008, a decline of \$7.3 million or 4.5% from 2007. The EBITDA margin declined 62 basis points from 9.04% in 2007 to 8.42% in 2008. This decline can be attributed to downward pressure on same-store sales and the results of recently opened stores that have not yet reached their full potential, as well as to the effects of an unfavourable variance in exchange rate.

**Distribution: Sales down 0.2 %, operating income down 4.3 % and EBITDA margin down 22 basis points**

Distribution sales, excluding intersegment activities, decreased by 1.4% to \$571.7 million in first half 2008.

Between the two comparison years, we acquired all or a majority of the shares of some affiliates in order to strengthen RONA's presence in certain areas of the country. On a comparable basis, excluding these acquisitions, sales would have declined 0.9% in first half of 2008, owing to lower levels of activity in our industry.

Distribution activities generated operating income of \$40.9 million in first half of 2008, compared to \$42.7 million in the same period a year earlier – a decrease of \$1.8 million or 4.3%. Despite an increase in gross profit margin, the EBITDA margin dropped by 22 basis points, reflecting the lower activity levels in general, the negative impact of the exchange rate, a change in the mix of products being distributed and an increase in transportation costs.

This decline however, masks a major improvement in the efficiency of the Company's distribution operations, as mentioned earlier in our analysis of second quarter results.

**TREASURY AND FINANCIAL POSITION**

Operations generated \$110.6 million in second quarter 2008, compared to \$111.5 in the same quarter of 2007. Excluding variations in working capital items, operations generated \$275.2 million, compared to \$169.8 million in 2007. We should mention that during the second quarter of 2008 same-store and distribution centre inventories decreased by \$118 million.

During the second quarter of 2008, we invested \$47.8 million in fixed assets, compared to \$65.4 million in 2007. These investments related to the expansion of our retail network, i.e., construction of new stores as well as repairs, renovations and upgrades of existing stores to reflect our new concepts, especially for stores flying the Réno-Dépôt banner. We also invested in our information systems, in order to increase operational efficiency. The Company practised disciplined financial management for the entire quarter and strictly monitored investments in fixed assets. Non-core assets were also sold off during this quarter, generating an additional \$12.8 million inflow.

After six months of activity, RONA has invested \$90.0 million in fixed assets – \$18.2 million or 16.8% less than the \$108.1 million invested in 2007. During the second quarter of the current fiscal year, RONA decided to reduce the Company's capital spending program by 20% in 2008, in view of market conditions more difficult than expected. Accordingly we will hold our capital spending at approximately \$200 million, which is \$40 million less than the amount planned at the beginning of this year. Of this amount, \$160 million will be allocated to store construction, improvements or renovations, and property acquisition, while some \$40 million will be allocated for ongoing upgrades to our information systems. Given our significant improvements in managing merchandise flows and lowering inventories, we have postponed expansion of the Calgary distribution centre and new needs assessment studies are in progress.

The substantial funds generated by disciplined management of our working capital during this quarter allowed us to reduce our bank loans and revolving credit by \$204.8 million.

The table below presents a synopsis of the Company's contractual obligations as at June 29, 2008, including off-balance-sheet operating lease agreements used in the normal course of business. The Company has also concluded other off-balance-sheet arrangements (such as inventory buyback agreements and guaranteed mortgage loans), which do not appear on the table below. For a detailed description of these arrangements, please see note 8 in the interim consolidated financial statements.

**RONA: Contractual obligations by term  
(As at June 29, 2008)**

Contractual obligations	Payments by term (Thousands of dollars)				
	Total	Less than 1 year	1-2 years	3-4 years	5 years and more
Long-term loans	546,115	5,785	8,585	124,314	407,431
Obligations under capital leases	14,627	5,899	7,150	1,482	96
Operating and other leases	1,305,761	117,709	233,332	211,714	743,006
Other long-term obligations	63,310	31,157	26,753	5,325	75
<b>Total</b>	<b>1,929,813</b>	<b>160,550</b>	<b>275,820</b>	<b>342,835</b>	<b>1,150,608</b>

**RONA: Shares outstanding as at August 8, 2008**

Common shares	115,724,335
Unexercised options	3,130,977
<b>Total</b>	<b>118,855,312</b>

RONA's balance sheet remains very strong. On June 29, 2008, the ratio of total debt to capital was 29.8%, compared to 37.9% at the end of the corresponding quarter in 2007. RONA's equity/asset ratio stood at 51.0% at the end of second quarter 2008, compared to 46.7% at the same date in 2007.

On July 11, RONA agreed with its principal bankers to increase the amount of its available revolving credit by an additional \$150 million under its existing credit facility, which expires in October 2012. The terms and conditions associated with this additional amount are the same as for the \$500 million available under the existing credit facility. RONA will then be able to access \$650 million in revolving credit as of July 11, 2008. At the end of the second quarter, \$119 million had been drawn on this facility.

The Company's operations produce significant cash flow. With relatively low debt and long-term fixed rates on most of our long-term debt, RONA also has significant liquidity and can borrow many millions more at competitive rates. Our financial resources are therefore sufficient to pursue disciplined development on our four growth vectors: growing sales in our existing store network, construction of new corporate and franchise stores, recruitment of new affiliate stores and acquisitions.

## QUARTERLY INFORMATION

### RONA: Consolidated Quarterly Financial Results (In millions of dollars, except earnings per share)

	2008		2007				2006*		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4*	Q3	Q2
Sales	1,473.3	911.5	1,087.0	1,350.5	1,469.1	878.5	1,141.3	1,265.8	1,346.0
Operating income	157.3	33.4	75.9	121.6	161.8	40.9	86.7	109.6	145.0
Net earnings	80.1	1.0	30.5	59.4	86.2	9.0	38.1	56.1	80.0
Earnings per share (\$)	0.69	0.01	0.26	0.52	0.75	0.08	0.33	0.49	0.70
Diluted earnings per share (\$)	0.69	0.01	0.26	0.51	0.74	0.08	0.33	0.48	0.69

\* Q4 2006 consisted of 14 weeks, compared to 13 weeks for the other quarters.

As we mentioned in our yearend report, RONA's sector varies significantly from one quarter to another. Sales in the first quarter of the year are always lower than in the other three quarters, because of the low activity levels in the renovation sector during the winter. Furthermore, weather conditions can have a major impact on sales. With the increase in the proportion of our activities related to the corporate stores and franchise segment, and the greater proportion of products related to building materials, the seasonal effect of the first quarter has been more pronounced in 2007 and 2008 than in previous years. The second quarter, however, is usually the strongest quarter in the fiscal year.

## OUTLOOK

As we mentioned in the section on economic conditions, in second quarter 2008, three major factors influenced the Canadian economy as well as consumer confidence and activity in Canada: the prolonged slowdown of the US economy, ongoing turbulence in global financial markets and sharp increases in the prices of certain basic commodities, particularly energy. This situation, combined with a decrease in housing starts and resale of single-unit homes in Canada, especially in Alberta, will continue to put downward pressure on sales in our industry.

The numerous optimization measures introduced under the PEP program in Phase 1 of our 2008-2011 strategic plan and the various initiatives undertaken to stimulate sales and boost customer loyalty will continue to produce gains over the next quarters. These measures will help compensate for the negative effects of the downward pressure on sales in our industry.

We are keeping our sights on our 2008-2011 financial objectives. We are making good progress toward reaching our key objectives in Phase 1 – the PEP program – with major improvement of our gross margin, rigorous management of assets and liabilities and introduction of numerous measures to improve the performance and efficiency of our stores and distribution centres. Achievement of our low single digit growth objective for average earnings per share in the first half of the plan, however, has turned out to be a bigger challenge than we expected, given a slowdown much greater than anticipated in Canadian economic activity and an even swifter and sharper decline in construction and resale of single-family homes, especially in Alberta. We are nevertheless optimistic about the fundamental factors that support the demand for, and interest in, renovation projects.

Finally, current market conditions represent major potential for consolidation of Canada's construction and renovation market, especially through recruitment of independent stores. We might add that RONA's recruitment results so far this year clearly show that when times are

tough, many store owners are eager to join the ranks of a purchasing group that has a strong awareness, a dynamic team and a promising development plan.

## **SUBSEQUENT EVENTS**

On July 11, RONA agreed with its principal bankers to increase the amount of its available revolving credit by an additional \$150 million under its existing credit facility, which expires in October 2012. The terms and conditions associated with this additional amount are the same as for the \$500 million available under the existing credit facility. RONA will then be able to access \$650 million in revolving credit as of July 11, 2008. At the end of the second quarter, \$119 million had been drawn on this facility.

## **RISKS AND UNCERTAINTIES**

There have been no significant changes to the Company's principal risks and uncertainties during the second quarter of 2008. Please refer to the Annual MD&A for a complete description of the risks the Company faces.

## **CHANGES IN ACCOUNTING POLICIES**

At the beginning of the year 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 – Disclosures and presentation**

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. Section 3863, *Financial Instruments – Presentation* establishes standards for presentation of financial instruments and non-financial derivatives. These Sections complement the principles of recognition, measurement and presentation of financial instruments of Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3865, *Hedges* and replace the presentation 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.

### **Inventories**

Section 3031, *Inventories*, replaces Section 3030 of the same title and prescribes the basis and method for measuring inventories. It allows for the reversal of any previous write-down of inventories as a result of an increase in value. Finally, the Section prescribes new requirements on the disclosure of the accounting policies adopted, carrying amounts, amounts recognized as an expense, the amount of any write-down and the amount of any reversal of a write-down.

The adoption of the new recommendations had no material impact on the Company's results, financial position and cash flow.

## **ACCOUNTING STANDARDS NOT YET APPLIED**

In February 2008, the CICA published Section 3064, *Goodwill and Intangible Assets*, which replaces Section 3062 of the same name. The new section applies to fiscal years commencing October 1, 2008. Over the next quarters, the Company will evaluate this new section's effects on its consolidated financial statements.

## **SIGNIFICANT ACCOUNTING ESTIMATES**

No significant changes have been noted since the publication of the MD&A for the year ended December 30, 2007.

## **INTERNAL CONTROL OVER FINANCIAL REPORTING**

During the second quarter ended June 29, 2008, no change to internal control over financial reporting has occurred that has materially affected, or is reasonably likely to have materially affected, such control.

## **FORWARD-LOOKING STATEMENTS**

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

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

The forward-looking statements in this MD&A reflect the Company's expectations as of August 11, 2008, and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

## ADDITIONAL INFORMATION

This MD&A was prepared on August 11, 2008. 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 the SEDAR website 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 and twenty-six-week periods ended June 29, 2008 and July 1, 2007  
(Unaudited, in thousands of dollars, except earnings per share)

	Second Quarter		Year-to-date	
	2008	2007	2008	2007
<b>Sales</b>	<b>\$1,473,254</b>	\$ 1,469,100	<b>\$ 2,384,788</b>	\$ 2,347,596
Earnings before the following items (Note 3)	<b>157,284</b>	161,778	<b>190,685</b>	202,628
Interest on long-term debt	<b>8,260</b>	8,163	<b>15,922</b>	14,410
Interest on bank loans	<b>719</b>	858	<b>977</b>	1,642
Depreciation and amortization (Note 3)	<b>29,113</b>	22,412	<b>54,360</b>	44,017
	<b>38,092</b>	31,433	<b>71,259</b>	60,069
Earnings before income taxes and non-controlling interest	<b>119,192</b>	130,345	<b>119,426</b>	142,559
Income taxes	<b>36,713</b>	41,797	<b>36,783</b>	45,475
Earnings before non-controlling interest	<b>82,479</b>	88,548	<b>82,643</b>	97,084
Non-controlling interest	<b>2,360</b>	2,385	<b>1,509</b>	1,894
<b>Net earnings and comprehensive income</b>	<b>\$ 80,119</b>	\$ 86,163	<b>\$ 81,134</b>	\$ 95,190
<b>Net earnings per share (Note 14)</b>				
Basic	<b>\$ 0.69</b>	\$ 0.75	<b>\$ 0.70</b>	\$ 0.83
Diluted	<b>\$ 0.69</b>	\$ 0.74	<b>\$ 0.70</b>	\$ 0.82

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

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

For the twenty-six-week periods ended June 29, 2008 and July 1, 2007  
(Unaudited, in thousands of dollars)

	2008	2007
<b>Consolidated Retained Earnings</b>		
Balance, beginning of period, as previously reported	\$ 892,967	\$ 709,467
Financial instruments - recognition and measurement	-	(1,589)
Restated balance, beginning of period	<u>892,967</u>	<u>707,878</u>
Net earnings	<u>81,134</u>	<u>95,190</u>
<b>Balance, end of period</b>	<b>\$ 974,101</b>	<b>\$ 803,068</b>
<b>Consolidated Contributed Surplus</b>		
Balance, beginning of period	\$ 11,045	\$ 9,182
Compensation cost relating to stock option plans	758	1,008
Exercise of stock options	-	(219)
<b>Balance, end of period</b>	<b>\$ 11,803</b>	<b>\$ 9,971</b>

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

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

For the thirteen and twenty-six-week periods ended June 29, 2008 and July 1, 2007  
(Unaudited, in thousands of dollars)

	Second Quarter		Year-to-date	
	2008	2007	2008	2007
<b>Operating activities</b>				
Net earnings	\$ 80,119	\$ 86,163	\$ 81,134	\$ 95,190
Non-cash items				
Depreciation and amortization	29,113	22,412	54,360	44,017
Derivative financial instruments	(473)	(2,406)	95	(3,630)
Future income taxes	23	1,802	101	(2,479)
Net gain on disposal of assets	(1,519)	(241)	(1,491)	(181)
Compensation cost relating to stock option plans	379	537	758	1,008
Non-controlling interest	2,360	2,385	1,509	1,894
Other items	624	836	1,393	1,655
	<b>110,626</b>	<b>111,488</b>	<b>137,859</b>	<b>137,474</b>
Changes in working capital items	<b>164,534</b>	<b>58,306</b>	<b>11,429</b>	<b>(99,237)</b>
Cash flows from operating activities	<b>275,160</b>	<b>169,794</b>	<b>149,288</b>	<b>38,237</b>
<b>Investing activities</b>				
Business acquisitions (Note 4)	(1,758)	(167,638)	(3,886)	(170,661)
Advances to joint ventures and other advances	1,986	615	7,929	4,640
Other investments	(2,440)	(588)	(2,440)	(588)
Fixed assets	(47,844)	(65,364)	(89,979)	(108,144)
Other assets	(2,070)	(1,738)	(4,172)	(3,231)
Disposal of assets	12,818	1,650	15,849	2,920
Cash flows from investing activities	<b>(39,308)</b>	<b>(233,063)</b>	<b>(76,699)</b>	<b>(275,064)</b>
<b>Financing activities</b>				
Bank loans and revolving credit	(204,798)	122,534	(52,075)	245,572
Other long-term debt	–	11	1,977	933
Repayment of other long-term debt and redemption of preferred shares	(9,284)	(4,811)	(12,302)	(14,553)
Issue of common shares	2,414	1,092	2,970	3,312
Issue of equity securities to non controlling interest	–	750	–	750
Cash flows from financing activities	<b>(211,668)</b>	<b>119,576</b>	<b>(59,430)</b>	<b>263,014</b>
<b>Net increase (decrease) in cash</b>	<b>24,184</b>	<b>56,307</b>	<b>13,159</b>	<b>(813)</b>
Cash, (outstanding cheques), beginning of period	(8,159)	1,366	2,866	58,486
Cash, end of period	\$ 16,025	\$ 57,673	\$ 16,025	\$ 57,673
<b>Supplementary information</b>				
Interest paid	\$ 3,525	\$ 4,655	\$ 18,649	\$ 11,323
Income taxes paid	\$ 27,911	\$ 25,218	\$ 51,794	\$ 62,680

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

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

June 29, 2008, July 1, 2007 and December 30, 2007  
(In thousands of dollars)

	<b>2008</b>	2007	2007
	<b>June 29</b>	July 1	December 30
	<b>(Unaudited)</b>	(Unaudited)	
<b>Assets</b>			
<b>Current assets</b>			
Cash	\$ 16,025	\$ 57,673	\$ 2,866
Accounts receivable	358,142	328,328	237,043
Income taxes receivable	20,796	7,476	5,684
Inventory (Note 5)	911,553	958,839	856,326
Prepaid expenses	65,796	51,432	27,913
Derivative financial instruments (Note 11)	25	1,809	1,168
Future income taxes	10,351	14,839	12,279
	<b>1,382,688</b>	1,420,396	1,143,279
Investments	9,270	14,559	11,901
Fixed assets	816,389	716,237	816,919
Fixed assets held for sale (Note 6)	41,294	—	—
Goodwill	457,845	438,609	454,882
Trademarks	3,971	3,593	4,145
Other assets	28,485	25,589	28,685
Future income taxes	23,378	20,364	22,635
	<b>\$ 2,763,320</b>	\$ 2,639,347	\$ 2,482,446
<b>Liabilities</b>			
<b>Current liabilities</b>			
Bank loans	\$ 13,388	\$ 26,861	\$ 19,574
Accounts payable and accrued liabilities	674,418	583,021	421,446
Derivative financial instruments (Note 11)	19	562	1,067
Future income taxes	3,716	2,442	3,650
Instalments on long-term debt	31,614	37,474	34,239
	<b>723,155</b>	650,360	479,976
Long-term debt	553,206	687,131	602,537
Other long-term liabilities	26,292	22,190	24,526
Future income taxes	22,631	21,303	23,781
Non-controlling interest	27,968	26,076	26,420
	<b>1,353,252</b>	1,407,060	1,157,240
<b>Shareholders' equity</b>			
Capital stock (Note 7)	424,164	419,248	421,194
Retained earnings	974,101	803,068	892,967
Contributed surplus	11,803	9,971	11,045
	<b>1,410,068</b>	1,232,287	1,325,206
	<b>\$ 2,763,320</b>	\$ 2,639,347	\$ 2,482,446

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

## **RONA inc.**

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

June 29, 2008 and July 1, 2007

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

#### **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 year ended December 30, 2007. The interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 30, 2007. The interim operating results do not necessarily reflect the results for the full fiscal year. Accordingly, the comparative balance sheet at as July 1, 2007 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.

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

At the beginning of 2008 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 – Disclosures and presentation**

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. Section 3863, *Financial Instruments – Presentation* establishes standards for presentation of financial instruments and non-financial derivatives. These Sections complement the principles of recognition, measurement and presentation of financial instruments of Section 3855, *Financial Instruments – Recognition and Measurement* and Section 3865, *Hedges* and replace the presentation 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 inc.**

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

June 29, 2008 and July 1, 2007

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

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

##### **Inventories**

Section 3031, *Inventories*, replaces Section 3030 of the same title and prescribes the basis and method for measuring inventories. It allows for the reversal of any previous write-down of inventories as a result of an increase in value. Finally, the Section prescribes new requirements on the disclosure of the accounting policies adopted, carrying amounts, amounts recognized as an expense, the amount of any write-down and the amount of any reversal of a write-down.

The adoption of the new recommendations had no material impact on the results, financial position and cash flows of the Company.

#### **3. Store closing costs**

##### **Exit and disposal costs and write-down of assets**

In April 2008, management approved a detailed plan to close four of its stores included in the corporate and franchised stores segment by the end of the year. During the thirteen-week period ended June 29, 2008 the Company recognized costs of \$2,183 included in Earnings before the following items and \$2,303 included in Depreciation and amortization. Of these amounts, \$226 relates to termination benefits, \$1,957 to an inventory write-down and \$2,303 to a write-down of fixed assets. Additional estimated costs of \$5,393 relating to store closures, notably lease obligations, will be recorded by the Company when the criteria for recognition have been met.

##### **Other closing costs**

During the thirteen-week period ended June 29, 2008, in addition to the exit and disposal costs and write-down of assets, the Company recorded operating costs, including interest and depreciation, for the liquidation of the assets of these stores in the amount of \$2,411. The Company estimated that additional costs of \$2,548 will be incurred in the coming quarters to complete the liquidation of these stores' assets.

## RONA inc.

### Notes to Interim Consolidated Financial Statements

June 29, 2008 and July 1, 2007

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

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#### 4. Business acquisitions

During the twenty-six week period ended June 29, 2008, the Company acquired one company (four companies in 2007), operating in the corporate and franchised stores segment, by way of an asset purchase (share and asset purchases in 2007). Taking direct acquisition costs into account, this acquisition was for a total consideration of \$5,432 (\$184,260 in 2007). The Company financed this acquisition from its existing credit facilities. The results of operations of this company are consolidated from the date of acquisition.

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

	<u>2008</u>	<u>2007</u>
Current assets	\$ 3,987	\$ 62,112
Fixed assets	650	10,369
Goodwill	2,963	122,051
Trademarks	-	2,321
Future income taxes	-	820
Current liabilities	(2,168)	(9,889)
Long-term debt	-	(3,524)
	<u>5,432</u>	<u>184,260</u>
Less : Accrued direct acquisition costs	(46)	(520)
Balance of purchase price	<u>(1,500)</u>	<u>(13,079)</u>
Cash consideration paid	<u>\$ 3,886</u>	<u>\$ 170,661</u>

The Company expects that an amount of \$1,875 of goodwill will be deductible for tax purposes.

#### 5. Inventory

For the thirteen and twenty-six-week periods ended June 29, 2008, \$1,041,673 and \$1,682,411 of inventory was expensed in the consolidated results (\$1,055,601 and \$1,684,914 as at July 1, 2007). These amounts include an inventory write-down charge of \$15,963 and \$23,753 (\$13,312 and \$20,750 as at July 1, 2007).

#### 6. Fixed assets held for sale

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

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

June 29, 2008 and July 1, 2007

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

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

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

	June 29, 2008	
	Number of shares	Amount
Balance, beginning of period	115,412,766	\$ 418,246
Issuance in exchange for common share subscription deposits	197,854	3,349
Issuance under stock option plans	5,000	18
Issuance in exchange for cash	93,458	1,250
Balance before elimination of reciprocal shareholdings	115,709,078	422,863
Elimination of reciprocal shareholdings	(72,396)	(435)
Balance, end of period	115,636,682	422,428
Deposits on common share subscriptions, net of eliminations of joint ventures <sup>(a)</sup>		1,736
		\$ 424,164

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

	December 30, 2007	
	Number of shares	Amount
Balance, beginning of year	114,935,569	\$ 413,542
Issuance in exchange for common share subscription deposits	120,715	2,513
Issuance under stock option plans	339,327	1,876
Issuance in exchange for cash	17,155	315
Balance before elimination of reciprocal shareholdings	115,412,766	418,246
Elimination of reciprocal shareholdings	(70,319)	(401)
Balance, end of year	115,342,447	417,845
Deposits on common share subscriptions, net of eliminations of joint ventures <sup>(a)</sup>		3,349
		\$ 421,194

<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.

## **RONA inc.**

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

June 29, 2008 and July 1, 2007

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

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

##### **Stock option plan of May 1, 2002**

The Company adopted a stock option plan for designated senior executives which was approved by the shareholders on May 1, 2002. A total of 2,920,000 options were granted at that date. Options granted under the plan may be exercised since the Company made a public share offering on November 5, 2002. The Company can grant options for a maximum of 3,740,000 common shares. As at June 29, 2008 the 2,920,000 options granted have an exercise price of \$3.47 and of this number, 1,454,500 options (1,449,500 options as at July 1, 2007) were exercised.

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

No compensation cost was expensed with respect to this plan for the twenty-six-week periods ended June 29, 2008 and July 1, 2007.

##### **Stock option plan of October 24, 2002**

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

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

## RONA inc.

### Notes to Interim Consolidated Financial Statements

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

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#### 7. Capital stock (continued)

As at June 29, 2008, the 1,944,052 options (1,700,852 options as at July 1, 2007) granted have exercise prices ranging from \$14.18 to \$26.87 (\$14.29 to \$26.87 as at July 1, 2007) and of this number, 85,100 options (85,100 options as at July 1, 2007) have been exercised and 193,475 options (141,550 options as at July 1, 2007) have been forfeited.

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>June 29, 2008</b>	July 1, 2007
Weighted average fair value per option granted	<b>\$4.42</b>	\$8.50
Risk-free interest rate	<b>3.25%</b>	3.90 %
Expected volatility in stock price	<b>26%</b>	26 %
Expected annual dividend	<b>0%</b>	0 %
Expected life (years)	<b>6</b>	6

Compensation costs expensed with respect to this plan were \$379 and \$758 for the thirteen and twenty-six-week periods ended June 29, 2008 (\$537 and \$1,008 as at July 1, 2007).

## RONA inc.

### Notes to Interim Consolidated Financial Statements

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#### 7. Capital stock (continued)

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

	June 29, 2008	
	Options	Weighted average exercise price
Balance, beginning of period	2,922,552	\$ 11.31
Granted	243,200	14.18
Exercised	(5,000)	3.47
Forfeited	(29,775)	21.11
Balance, end of period	3,130,977	11.46
Options exercisable, end of period	2,049,569	\$ 7.07

	July 1, 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
Forfeited	(74,450)	20.73
Balance, end of period	2,944,702	11.39
Options exercisable, end of period	1,891,600	\$ 6.21

	December 30, 2007	
	Options	Weighted average exercise price
Balance, beginning of year	3,162,479	\$ 10.16
Granted	196,000	23.58
Exercised	(339,327)	4.88
Forfeited	(96,600)	20.94
Balance, end of year	2,922,552	11.31
Options exercisable, end of year	2,011,194	\$ 6.70

## RONA inc.

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

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#### 7. Capital stock (continued)

The following table summarizes information relating to stock options outstanding as at June 29, 2008:

Exercise price	Expiration date	Options outstanding	Options exercisable
\$ 3.47	December 31, 2012	1,465,500	1,465,500
\$ 14.18	February 29, 2018	240,300	–
\$ 14.29	December 16, 2013	432,550	432,550
\$ 20.27	December 22, 2014	411,250	103,750
\$ 21.21	February 24, 2016	368,500	–
\$ 21.78	September 1, 2016	17,576	4,394
\$ 23.58	March 8, 2017	172,225	43,375
\$ 23.73	April 5, 2015	5,500	–
\$ 26.87	February 24, 2016	17,576	–
		<hr/>	<hr/>
		3,130,977	2,049,569

#### 8. 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 \$2,113. The terms of these loans extend until 2012 and the net carrying amount of the assets held as security, which mainly include land and buildings, is \$5,930.

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 inventory to a maximum of \$57,246. 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.

#### 9. Vendor rebates

In accordance with EIC-144 *Accounting by a customer (including a reseller) for certain consideration received from a vendor*, the Company must disclose the amount recognized for which the full requirements for vendor rebate entitlement have not yet been met. For the twenty-six-week period ended June 29, 2008, the Company recognized an amount of \$6,556 (\$9,325 as at July 1, 2007) which was estimated based on the attainment of specified requirements to receive the rebates.

## **RONA inc.**

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

June 29, 2008 and July 1, 2007

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

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#### **10. Capital disclosures**

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

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

As at June 29, 2008, the Company's debt-to-capital ratio is 29.8% (37.9% as at July 1, 2007).

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

The Company's credit facilities include certain covenants affecting, among others, the leverage ratio and the interest coverage ratios. These ratios are submitted to the Board of Directors each quarter and, as at June 29, 2008, the Company is in compliance with the ratios. Other than covenants related to its credit facilities, the Company is not subject to any other externally imposed capital requirements.

## RONA inc.

### Notes to Interim Consolidated Financial Statements

June 29, 2008 and July 1, 2007

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

#### 11. Financial instruments

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

	June 29, 2008		July 1, 2007		December 30, 2007	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets held for trading						
Cash	\$ 16,025	\$ 16,025	\$ 57,673	\$ 57,673	\$ 2,866	\$ 2,866
Derivative financial instruments	25	25	1,809	1,809	1,168	1,168
Loans and receivables						
Accounts receivable	358,142	358,142	328,328	328,328	237,043	237,043
Redeemable preferred shares	–	–	1,400	1,400	1,071	1,071
Financial liabilities						
Bank loans	13,388	13,388	26,861	26,861	19,574	19,574
Accounts payable and accrued liabilities	674,418	674,418	583,021	583,021	421,446	421,446
Revolving credit	114,312	114,312	241,495	241,495	160,200	160,200
Debentures	395,999	317,715	395,648	376,078	395,821	372,145
Mortgage loans and balance of purchase price	55,460	55,460	64,501	64,501	60,438	60,438
Preferred shares	5,000	5,000	6,000	6,000	5,000	5,000
Financial liabilities held for trading						
Derivative financial instruments	19	19	562	562	1,067	1,067

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

- The fair value of accounts receivable, bank loans and accounts payable and accrued liabilities is comparable to their carrying amount, given the short maturity periods;
- The fair value of loans and advances, substantially all of which have been granted to dealer-owners, has not been determined because such transactions have been conducted to maintain or to develop favourable trade relationships and do not necessarily reflect terms and conditions which would have been negotiated with arm's length parties. Moreover, the Company holds sureties on certain investments which provide it with potential recourse regarding the operations of the dealer-owners in question;
- The fair value of the revolving credit, mortgage loans and balance of purchase price is equivalent to their carrying amount given that significant loans bear interest at rates that fluctuate with the market rate;

## RONA inc.

### Notes to Interim Consolidated Financial Statements

June 29, 2008 and July 1, 2007

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

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#### 11. Financial instruments (continued)

- The fair value of debentures was determined using market prices;
- The fair value of class C preferred shares, Series 1 and class D preferred shares, included in long-term debt, approximates their redemption value;
- The fair value of derivative instruments was determined by comparing the original rates of the derivatives with rates prevailing at the revaluation date for contracts having equal values and maturities.

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

	Second Quarter		Year-to-date	
	2008	2007	2008	2007
Interest on accounts receivable	\$ (880)	\$ (502)	\$ (1,590)	\$ (1,728)
Interest on long-term loans and advances	(1,181)	(582)	(2,245)	(1,423)
Dividends on redeemable preferred shares	(3)	(21)	(29)	(42)
Interest on cash and bank loans	719	858	977	1,642
Interest on long - term debt	8,260	8,163	15,922	14,410
Loss (gain) on fair value of derivative financial instruments	(1,545)	(2,853)	2,087	(3,128)

#### Credit risk

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

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

## RONA inc.

### Notes to Interim Consolidated Financial Statements

June 29, 2008 and July 1, 2007

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

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#### 11. Financial instruments (continued)

As at June 29, 2008, the aging of accounts receivable is as follows:

Current	\$ 289,298
Past due 0 - 30 days	43,867
Past due 31-120 days	15,904
Past due over 121 days	13,602
Trade accounts receivable	<u>362,671</u>
Less allowance for doubtful accounts	12,547
	<u>\$ 350,124</u>

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

Balance as at December 30, 2007	\$ 10,181
Variance in allowance for doubtful accounts	2,366
Balance as at June 29, 2008	<u>\$ 12,547</u>

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#### Liquidity risk

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

## RONA inc.

### Notes to Interim Consolidated Financial Statements

June 29, 2008 and July 1, 2007

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

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#### 11. Financial instruments (continued)

The following table presents the financial liability instalments payable when contractually due, excluding future interest payments but including accrued interest as at June 29, 2008:

	Carrying amount	Less than 1 year	1 - 2 years	3 - 4 years	5 years and more
Revolving credit	\$ 114,312	\$ –	\$ –	\$ 114,312	\$ –
Debentures	400,000	–	–	–	400,000
Mortgage loans and balance of purchase price	55,721	25,375	12,913	10,002	7,431
Obligations under capital leases	14,627	5,899	7,150	1,482	96
Preferred shares	5,000	1,000	2,000	2,000	–
Bank loans	13,388	13,388	–	–	–
Accounts payable and accrued liabilities	674,418	674,418	–	–	–
Derivative financial instruments	19	19	–	–	–
Total	<u>\$ 1,277,485</u>	<u>\$ 720,099</u>	<u>\$ 22,063</u>	<u>\$ 127,796</u>	<u>\$ 407,527</u>

#### Exchange risk

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

As at June 29, 2008, the par value of forward exchange contracts is US \$34,300. The average rate of these contracts is 1.0116 and they expire on various dates until November 2008.

On June 29, 2008, a 1% increase or decrease in the exchange rate of the Canadian dollar compared to the U.S. dollar, assuming that all other variables are constant, would have resulted in a \$108 increase or decrease in the Company's net earnings for the thirteen and twenty-six-week periods ended June 29, 2008.

#### Interest rate risk

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

On June 29, 2008, a 25-basis-point increase or decrease in interest rates, assuming that all other variables are constant, would have resulted in a \$51 and \$188 increase or decrease in the Company's net earnings for the thirteen and twenty-six-week periods ended June 29, 2008.

## RONA inc.

### Notes to Interim Consolidated Financial Statements

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

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#### 12. Employee future benefits

As at June 29, 2008, the Company has eight defined contribution pension plans and four defined benefit pension plans. The net pension expense for the benefit plans is as follows:

	Second Quarter		Year-to-date	
	2008	2007	2008	2007
Cost recognized for defined contribution pension plans	\$ 2,135	\$ 2,188	\$ 4,311	\$ 4,272
Cost recognized for defined benefit pension plans	341	328	538	654
Net employee future benefit costs	\$ 2,476	\$ 2,516	\$ 4,849	\$ 4,926

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#### 13. 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

June 29, 2008 and July 1, 2007

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

#### 13. Segmented information (continued)

	Second Quarter		Year-to-date	
	2008	2007	2008	2007
<b>Segment sales</b> <sup>(a)</sup>				
Corporate and franchised stores	\$ 1,130,019	\$ 1,126,279	\$ 1,813,048	\$ 1,768,029
Distribution	716,982	715,705	1,208,383	1,210,678
Total	1,847,001	1,841,984	3,021,431	2,978,707
<b>Intersegment sales and royalties</b> <sup>(a)</sup>				
Corporate and franchised stores	—	—	—	—
Distribution	(373,747)	(372,884)	(636,643)	(631,111)
Total	(373,747)	(372,884)	(636,643)	(631,111)
<b>Sales</b> <sup>(a)</sup>				
Corporate and franchised stores	1,130,019	1,126,279	1,813,048	1,768,029
Distribution	343,235	342,821	571,740	579,567
Total	1,473,254	1,469,100	2,384,788	2,347,596
<b>Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest</b> <sup>(a)</sup>				
Corporate and franchised stores	159,371	163,119	207,061	213,384
Distribution	32,393	32,928	52,253	53,628
Total	191,764	196,047	259,314	267,012
<b>Earnings before interest, depreciation and amortization, income taxes and non-controlling interest</b> <sup>(a)</sup>				
Corporate and franchised stores	130,524	135,103	149,789	159,905
Distribution	26,760	26,675	40,896	42,723
Total	157,284	161,778	190,685	202,628
<b>Acquisition of fixed assets</b>				
Corporate and franchised stores	41,424	66,264	79,922	105,710
Distribution	6,436	7,092	10,707	11,650
Total	47,860	73,356	90,629	117,360
<b>Goodwill</b>				
Corporate and franchised stores	298	121,210	2,963	122,051
Distribution	—	—	—	—
Total	\$ 298	\$ 121,210	\$ 2,963	\$ 122,051
<b>Total assets</b>				
Corporate and franchised stores			2,268,928	2,098,438
Distribution			494,392	540,909
Total			\$ 2,763,320	\$ 2,639,347

(a) During the first quarter of 2008, the Company reviewed its segmented information analysis method and, as a result, modified the presentation of such information between segments. The 2007 comparable period was adjusted accordingly.

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**Notes to Interim Consolidated Financial Statements**

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**14. Earnings per share**

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

	Second Quarter		Year-to-date	
	2008	2007	2008	2007
<b>Net earnings</b>	<b>\$ 80,119</b>	\$ 86,163	<b>\$ 81,134</b>	\$ 95,190
<b>Number of shares (in thousands)</b>				
Weighted average number of shares used to compute basic net earnings per share	<b>115,614.8</b>	115,339.1	<b>115,579.7</b>	115,234.1
Effect of dilutive stock options <sup>(a)</sup>	<b>1,078.2</b>	1,460.6	<b>1,113.0</b>	1,547.8
Weighted average number of shares used to compute diluted net earnings per share	<b>116,693.0</b>	116,799.7	<b>116,692.7</b>	116,781.9
<b>Net earnings per share - basic</b>	<b>\$ 0.69</b>	\$ 0.75	<b>\$ 0.70</b>	\$ 0.83
<b>Net earnings per share - diluted</b>	<b>\$ 0.69</b>	\$ 0.74	<b>\$ 0.70</b>	\$ 0.82

(a) As at June 29, 2008, 1,232,927 common share stock options (620,652 options as at July 1, 2007) were excluded from the calculation of diluted net earnings per share since the unrecognized future compensation cost of these options has an antidilutive effect.

**15. Effect of new accounting standards not yet implemented**

In February 2008, the CICA published Section 3064 *Goodwill and Intangible Assets* which replaces Section 3062 of the same title. The Section applies to fiscal years beginning on or after October 1, 2008. In the coming quarters, the Company will determine the effect of adopting this new section in its consolidated financial statements.

**RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of close to 700 corporate, franchise and affiliate stores of various sizes and formats. With over 27,000 employees working under its family of banners in every region of Canada and more the 15 million square feet of retail space, the RONA store network generates over \$6.3 billion in annual retail sales.**



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