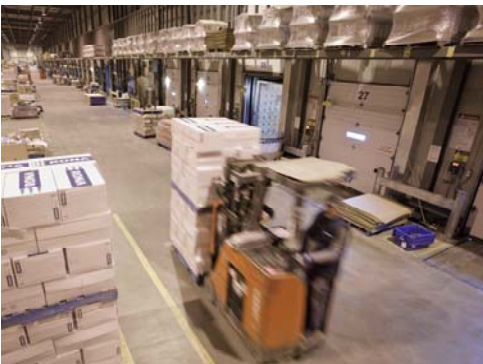


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Taking the right measures

Consolidated interim report

for the quarter ended June 28, 2009



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RONA PURSUES “PEP” PROGRAM IN SECOND QUARTER AND PREPARES FOR RECOVERY PHASE OF 2008-2011 STRATEGIC PLAN

SECOND QUARTER HIGHLIGHTS

- Despite growth in commercial and professional sales in Ontario and a slight decrease in sales to Canadian consumers, consolidated sales declined 7.0%, due largely to a major drop in housing starts, which impacted our specialized building materials stores.
- Gross margin increased 20 basis points and adjusted gross margin increased 41 basis points.
- Comparable inventories were reduced by \$61 million or 6.7%.
- A stock issue of 11,630,000 RONA shares on June 2 at \$12.90 per share generated gross proceeds of \$150 million. Exercise of the overallocation option on June 30, after the end of the quarter, brought the total gross proceeds generated by the offering to \$172.5 million for a total of 13,374,500 shares issued.
- Net debt was reduced by \$259.2 million compared to 2008 and interest on long-term debt and bank loans was reduced by 36.1%.
- Unusual items related to store closures, net of a gain on disposal of assets, totalled \$4.0 million after taxes in second quarter 2008 and \$5.7 million in second quarter 2009.
- Net earnings, including unusual items, were \$60.8 million or \$0.51 per share (diluted), compared to \$76.6 million or \$0.66 per share (diluted) 2008. Excluding unusual items, net earnings were \$66.5 million or \$0.55 per share (diluted) in second quarter 2009, compared to \$80.6 million or \$0.69 per share (diluted) in 2008. Net earnings for 2008 were adjusted to reflect the application of a new accounting standard (details on page 2).
- The RONA network continued to expand, with the acquisition of Bishop's Building Center in the Atlantic Provinces, the reconstruction and expansion of the Réno-Dépôt in Lasalle, Quebec, recruitment of four new independent dealer-owners, and several expansion and renovation projects by RONA affiliates. A new TOTEM store also opened in Strathmore, Alberta, last week.

RONA inc. (TSX: RON), Canada's leading distributor and retailer of hardware, home improvement and gardening products, has announced consolidated sales of \$1,369.9 million in second quarter 2009, down \$103.3 million or 7.0% from the \$1,473.3 million figure posted in 2008, despite increased sales to commercial and professional customers in Ontario and only a slight drop in sales to Canadian consumers in Western Canada, which greatly affected sales in our specialized building materials stores. This decline stems from a 6.2% drop in same-store sales due mainly to a major fall in housing starts compared to second quarter 2008. Same-store sales were also negatively impacted by 0.75% because second quarter 2009 was shorter than 2008 by one business day, due to a statutory holiday. Again in the second quarter, weather conditions were adverse to renovation-construction activities, and to sales of seasonal items and air-conditioning products.

Readers of this *News Release* should note that a new accounting standard was adopted in the first quarter of 2009, which restated the results presented in 2008. For a brief description of this new standard and its impact on RONA's consolidated results, please see the “New Accounting Standard” section on page 2 of this *News Release*. A full description appears as note 2 of the Company's consolidated financial statements.

Unusual items related to the cost of store closures and a gain on disposal of assets totalled \$8.5 million in 2008 and \$8.2 million in 2009. Operating income, including unusual items, was \$122.9 million in second quarter 2009, compared to \$150.3 million in 2008. Excluding these unusual items, operating income was \$131.1 million in second quarter 2009, down \$22.1 million or 14.4% from 2008. The EBITDA margin declined from 10.40% in 2008 to 9.57% in 2009, a decrease of 83 basis points. The numerous efficiency improvements introduced under the PEP program helped offset the negative impact of weaker sales. This decline in operating income and EBITDA margin can also be attributed to increased promotional activity and our ongoing support for various value-added services available in our stores, including the RONAdvantage tax credit incentive program, Project Guide, and installation services despite more difficult market conditions.

Net earnings, including unusual items, declined by 20.7% to \$60.8 million, or \$0.51 per share (diluted), compared to \$76.6 million or \$0.66 per share (diluted) in 2008. The factors that affected operating income also affected net

earnings. These factors were partly offset by a major reduction in interest costs during this quarter. Excluding unusual items related to the cost of store closures and the gain on disposal of assets mentioned above, net earnings were \$66.5 million in second quarter 2009, or \$0.55 per share (diluted), compared to \$80.6 million or \$0.69 per share (diluted) in 2008 – a decrease of \$14.2 million or 17.6%.

“As anticipated, the second quarter results reflect a slight improvement in market conditions compared to the previous quarter. Nevertheless, same-store sales and net earnings for the quarter were affected by a major reduction in housing starts compared to 2008, especially in the West, by weather conditions that have been poor for renovation-construction activities and sales of seasonal items, and by increased promotional activities. In these economic circumstances, we successfully carried on our PEP program (productivity, efficiency, profitability), we've improved our gross margin, reduced comparable inventories, increased productivity in our distribution centres and grown our sales of installation services. We also significantly improved our balance sheet and our financial flexibility by issuing \$172.5 million in common shares, which, together with strict management of our balance sheet and investments, allowed us to considerably reduce our debt level and our financial expenses,” said RONA president and CEO Robert Dutton.

“Although the most recent statistics published by the CMHC and predictions from the Bank of Canada seem to indicate a turnaround in economic conditions in Canada, we will continue to be cautious about our projections, since there's no indication as yet that the situation in our industry is improving significantly. Despite recent progress, consumer confidence remains fairly low and the unemployment rate is very high, leading consumers to proceed with caution, look for bargains, and undertake only minor renovation projects. Still, in the coming months we should start to see returns from our RONAdvantage program, the only ongoing complementary incentive program in our industry for the renovation tax credits,” Dutton added.

“Given the major efficiency gains achieved to date under the PEP program and the Company's increased financial flexibility in the wake of our stock issue in June, we're in an excellent position to commence Phase 2 of the 2008-2011 strategic plan at the beginning of 2010, as planned. As we continue to successfully implement the PEP program, which is Phase 1 of our plan, we're currently finalizing plans for Phase 2, which will focus on acceleration of RONA's development activities to take full advantage of the four growth vectors that have been the at the heart of our success for many years. New store concepts have been under study for some time for deployment in this recovery phase. One of these concepts – a specialized store unique in the industry – is ready to be unveiled. In addition to offering carefully selected interior decorating products and an innovative approach to paint selection, the new concept will provide an unrivalled consultation and technical support service designed to meet the needs of paint and interior decorating professionals as well as regular Canadian consumers. The new concept will initially be introduced in three different locations around Greater Montreal this fall,” Dutton concluded.

SECOND QUARTER 2009 FINANCIAL HIGHLIGHTS

New accounting standard

At the beginning of 2009 the Company retroactively adopted Section 3064 of the Canadian Institute of Chartered Accountants' (CICA) Handbook, *Goodwill and intangible assets*, which replaces Section 3062 of the same title. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including internally generated intangible assets. Pre-opening expenses for stores and distribution centres (previously included in Other Assets), advertising costs, including those related to store openings, and costs incurred for Olympic and Paralympic sponsorship (previously included in Prepaid Expenses) no longer meet the requirements of the new section. The balances in these asset accounts as at December 31, 2007 – that is, at the beginning of first quarter 2008 – were restated and included in Retained Earnings and the results of operations in 2008 were also restated to conform to the 2009 presentation.

In summary, operating income for second quarter 2008 has been reduced by \$7.0 million, amortization and depreciation by \$1.9 million, and net earnings by \$3.5 million, or a reduction of \$0.03 per share. For the first half of 2008, operating income was reduced by \$13.8 million, amortization and depreciation by \$3.9 million and net earnings by \$6.9 million, for a total reduction of \$0.06 per share.

Prepaid expenses were also reduced by \$32.0 million, other assets by \$5.8 million, and retained earnings by \$20.5 million. The detailed impact of applying these new recommendations during the first period of application of Section 3064 is explained in Note 2 of the Consolidated Financial Statements.

Economic conditions

In second quarter 2009, the behaviour of Canadian consumers continued to be affected by three main factors: the major slowdown of the Canadian economy (which shrank by 5.3% in the first quarter and is expected to contract a further 3.4% in the second quarter, according to the most recent Bank of Canada *Monetary Policy Report*), the significant increase in the unemployment rate and further slackening in the real estate sector. These three factors have continued to have a significant impact on consumer confidence in the second quarter, which is still lagging behind last year, despite a slight increase in the past few months.

In the first half of 2009, housing starts for single-family homes fell by 40.4% in urban Canada, according to CMHC estimates. The decrease was particularly significant in the West and in Ontario. In terms of sales of existing homes, the trend is also downward, with a 10.5% reduction in units sold in Canada's major urban centres in the first half of 2009 compared to 2008. Average prices declined 2.5% over the same period. In June, the decline in housing starts compared to 2008 was lower than in the preceding months, while resales and average prices were up, indicating a break in the series of major declines in activity in the Canadian housing market.

The worst seems to be behind us, according to the July 23 issue of the Bank of Canada *Monetary Policy Report*. The Bank projects that Canadian GDP growth will turn positive in third quarter 2009. The Bank also left the prime rate unchanged at 0.25%. Very low mortgage rates and the introduction of federal and provincial renovation tax credits are expected to stimulate renovation activity nationwide over the coming quarters. The fundamentals are also positive for renovation in Canada, since more than 65% of existing dwellings are over 25 years old and need maintenance and repair work. Baby boomers represent roughly 30% of the population and they are investing major sums in their homes and secondary residences. And there is still plenty of interest in interior decorating and gardening activities. Last but not least, next-generation Canadians are looking for one-stop solutions for their renovation projects and outstanding service in a friendly store near their home.

RONA is watching all these different trends closely as we develop new store formats and concepts, select our products and product categories, and develop innovative services in order to be ready to move forward rapidly when the economy recovers.

Achievements of the PEP Program

1. Improve the profitability of our corporate store network:

- Consolidated gross margin increased by 20 basis points. Including improved terms and conditions from our suppliers to support the growth of the network, the adjusted gross margin increased by 41 basis points. These increases stem from a reduction in store losses ("shrink") and further improvements in purchasing conditions from our suppliers.
- The big-box Réno-Dépôt store in Lasalle, Quebec, was entirely rebuilt and expanded following the demolition of the old store with the same banner in the same location. The new store measures 130,000 square feet.
- Our turnaround plan for underperforming stores is producing very good results, as these stores have posted greater increases in sales and operating income than the network as a whole during this quarter.
- In-depth studies of new product categories were conducted in this quarter and will be considered in selecting products in the future, especially with regard to safety and security products, small appliances, work and gardening clothes, and auto care products.
- New store concepts are under study for deployment in Phase 2 of the RONA 2008-2011 strategic plan, which should mark a return to accelerated growth. One of these concepts – a specialized store unique in the industry – is ready to be unveiled. In addition to offering carefully selected interior decorating products and an innovative approach to paint selection, the new concept will provide an unrivalled consultation and technical support service designed to meet the needs of paint and interior decorating

professionals as well as regular Canadian consumers. This concept will initially be introduced this coming fall at three different locations in the Greater Montreal Area.

2. Optimize the supply chain:

- Comparable store and distribution centre inventories were reduced by \$61 million in second quarter 2009 (excluding acquisitions and new stores) compared to second quarter 2008, resulting in lower operating costs and financing charges. Including acquisitions and new stores, inventories were reduced by \$52 million.
- Reduced transportation costs and ongoing improvements in demand management, resulting in a reduction of nearly \$1 million in logistics costs in second quarter 2009.
- Introduction of several new imported products, including a line of controlled-label HAUSSMANN tool products.

3. Accelerate recruitment of independent dealer-owners:

- During the quarter ended June 28, 2009, RONA recruited four new independent dealer-owners: three in Western Canada and one in Quebec. These dealer-owners represent estimated annual retail sales of over \$5 million. Since the end of the second quarter, one more dealer-owner has been recruited in Western Canada. Altogether, 11 dealer-owners have been recruited since the beginning of the year, representing estimated annual retail sales of over \$30 million.
- RONA dealer-owners have been very busy this year, completing 20 expansion and renovation projects totalling nearly \$30 million in investments. In the second quarter, one RONA dealer-owner recruited last year opened a new 52,000-square-foot proximity store in Grande Prairie, Alberta, and another, in British Columbia, opened a 25,000-square-foot store. A RONA dealer-owner in Ontario merged his two stores with the RONA big-box store in Windsor, and one in British Columbia acquired a neighbouring Home Hardware store.
- Several recruitment applications are under study in different parts of the country, and these represent real potential for the quarters ahead. A major effort this fall will use an innovative approach to demonstrate to potential recruits the many advantages of joining the RONA family.

4. Improve sales and increase customer loyalty across the RONA network:

- Over 10% growth in commercial and professional sales for big-box stores in Ontario, achieved through close cooperation with the specialized sales team in our Commercial and Professional Market division.
- Same-store sales growth for Noble Trade Plumbing Supplies, despite a declining market.
- Increase of over 15% in installation service sales.
- A major increase in applications for the RONAdvantage program, which provides rebates in the form of gift certificates to a maximum of \$1,000 as a complementary incentive under the new renovation tax credit programs. Nearly 10,000 applications have been received to date across the RONA network. RONAdvantage is the industry's only ongoing complementary incentive program for the renovation tax credits. The program is receiving increasing support from the various levels of government.
- Launch of new controlled-label HAUSSMANN and HAUSSMANN XPERT top-quality tool products, now available in all RONA stores, including Réno-Dépôt in Quebec. HAUSSMANN and HAUSSMANN XPERT tools and accessories are exclusive to RONA and make use of the latest technology in the professional tool industry.
- Introduction of 40 new RONA ECO products. Selected in partnership with the International Chair in Life Cycle Analysis, these new products include a manual lawn mower, reconditioned tool blades, mouldings, an algae-based fertilizer and a rainwater collector.
- Increased penetration by RONA private brand and controlled-label products to over 18% in the second quarter, despite a slight decrease in sales.
- RONA ranked twelfth among 100 companies in the annual Léger Marketing survey of the reputations of Canadian companies, up from fifteenth in 2008. The results of this survey were published in the latest edition of *Marketing* magazine, and RONA was rated first among all renovation sector companies. RONA also made it to 18th position among the top Canadian businesses in the Corporate Knights

annual Best 50 Corporate Citizens rankings. In its first appearance in this ranking, RONA achieved the second-highest score in the retail sector and the highest in the home improvement retail industry.

Consolidated sales

Consolidated sales for second quarter 2009 were \$1,369.9 million, down \$103.3 million or 7.0% less than the \$1,473.3 million posted in 2008. This decline is largely the result of a 6.2% drop in same-store sales, due mainly to a major fall in housing starts, especially in Western Canada, which substantially impacted sales in our specialized building materials stores. Same-store sales were negatively impacted by 0.75% because the second quarter of 2009 was shorter than 2008 by one business day, due to a statutory holiday. Again in the second quarter, weather conditions were poor for renovation-construction activities and sales of seasonal items and air-conditioning products.

The Réno-Dépôt big-box store in Lasalle, Quebec, was completely rebuilt and expanded after demolition of the old store under the same banner at the same location. The new 130,000-square-foot store opened at the beginning of this quarter. Early in the quarter, RONA also continued its growth in the Atlantic Provinces, with the acquisition of Bishop's Building Center. This new acquisition was integrated with the existing network of 8 Chester Dawe stores in Newfoundland. Including Bishop's, RONA and its affiliate dealer-owners now operate 26 stores of varying formats in the Atlantic Provinces.

Gross margin

For second quarter 2009, the gross margin improved by 20 basis points from 27.00% to 27.20%. Given better terms and conditions from our suppliers and the resulting supportive effect on growth of the network, the adjusted gross margin rose by 41 basis points from 29.40% to 29.81%. These increases stem from a reduction in in-store losses ("shrink"), better management of product categories, and further improvements in terms and conditions from our suppliers.

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

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

In the second quarter of 2008, the Company incurred \$6.9 million in store closure costs, of which \$4.2 million affected operating income. In the second quarter of 2009, costs of \$8.2 million were posted, largely due to final closure of the Scarborough store, which remained in operation until April. Final closure of the Richmond store took place in third quarter 2008. In second quarter 2008, the Company also sold some non-strategic assets and realized a before-tax gain of \$1.4 million.

Consolidated operating income

Operating income, including unusual items related to store closures and the gain on disposal of assets mentioned above, was \$122.9 million in second quarter 2009, down \$27.4 million or 18.3% from the \$150.3 million figure posted in 2008. The EBITDA margin dropped from 10.20% in 2008 to 8.97% in 2009, a decrease of 123 basis points, which can be attributed to downward pressure on same-store sales and the cost of store closures.

Excluding unusual items, operating income was \$131.1 million in second quarter 2009, down \$22.1 million or 14.4% from 2008. The EBITDA margin declined from 10.40% in 2008 to 9.57% in 2009, down 83 basis points.

This decline in operating income and EBITDA margin is largely attributable to weaker same-store sales, increased promotional activities and our ongoing support for various value-added services available in our stores, including the RONAdvantage tax credit incentive program, Project Guide, and installation services.

The numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008-2011 strategic plan have helped offset the negative impact of weaker sales. In the second quarter, the PEP program helped improve the gross margin by 20 basis points and the adjusted gross margin by 41 basis points, reduce comparable inventory

levels by \$61 million, reduce transportation and logistics costs by nearly \$1 million, and optimize the network of existing stores.

Interest, amortization and depreciation

RONA's interest expenses on long-term debt and bank loans for second quarter 2009 decreased by \$3.2 million to \$5.7 million, down 36.1% from \$9.0 million in 2008. This decrease is attributable to highly disciplined management of our balance sheet and capital investments, resulting in lower debt levels. The reduction is also due in part to declining interest rates over the last year and the proceeds from a stock issue on June 2, 2009, which was used to reduce the Company's debt levels at the end of the quarter.

Amortization costs for second quarter 2009 were \$26.6 million, down \$0.6 million or 2.2% from \$27.2 million in 2008. However, \$2.7 million was posted in second quarter 2008 in relation to the closures of underperforming stores. Excluding this amount, second quarter 2008 amortization and depreciation costs were \$24.5 million. Using this figure, second quarter 2009 amortization and depreciation costs were \$2.1 million or 8.6% higher than in 2008. This increase stems from new corporate store openings, the renovation program for existing corporate stores, and ongoing improvements to our information systems.

Net earnings

Net earnings, including unusual items, declined by 20.7% to \$60.8 million, or \$0.51 per share (diluted), compared to \$76.6 million or \$0.66 per share (diluted) in 2008. The factors that affected operating income also affected net earnings. These factors were partly offset by a major reduction in interest costs this quarter.

Excluding unusual items related to the cost of store closures and the gain on disposal of assets mentioned above, net earnings were \$66.5 million in second quarter 2009, or \$0.55 per share (diluted), compared to \$80.6 million or \$0.69 per share (diluted) in 2008 – a decrease of \$14.2 million or 17.6%.

ANALYSIS OF CONSOLIDATED RESULTS FOR THE FIRST HALF OF 2009

Consolidated sales

Consolidated sales for the first half of 2009 were \$2,215.9 million, down \$168.9 or 7.1% from the \$2,384.8 million posted in 2008. This decline can be attributed to the decrease in same-store sales, which was more pronounced at the beginning of the year. This decrease stems from the low level of consumer confidence among Canadians, a sharp decline in the number of housing starts for single-family homes, especially in the West, and weather conditions that have been especially poor for construction and renovation activities ever since the beginning of the year.

Gross margin

In the first half of 2009, the Company's gross margin improved by 23 basis points from 27.37% in 2008 to 27.60% in 2009. Given better terms and conditions from our suppliers and the resulting supportive effect on growth of the store network, the adjusted gross margin rose 53 basis points from 30.00% to 30.53%. This growth is due to a reduction in in-store losses ("shrink"), further improvements in terms and conditions from our suppliers, and better management of product categories.

Consolidated operating income

Operating income, including unusual items, was \$148.4 million in the first half of 2009, down \$28.6 million or 16.1% from the \$176.9 million recorded in 2008. The EBITDA margin declined from 7.42% in 2008 to 6.70% in 2009, a drop of 72 basis points, due to store closures and downward pressure on same-store sales.

Excluding unusual items related to the cost of store closures in second quarter 2009 and the corresponding quarter in 2008, operating income was \$156.6 million in the first half of 2009, down \$23.2 million or 12.9% from 2008. The EBITDA margin declined from 7.54% in 2008 to 7.07% in 2009, a decrease of 47 basis points.

This decline can be largely explained by current downward pressure on sales in the renovation-construction industry, stemming from the major reduction in housing starts since the beginning of the year and the decline in the level of

consumer confidence. As mentioned in our discussion of second-quarter results, the numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008-2011 strategic plan have helped offset the negative impact of these factors. During the first half of the year, the PEP program helped improve the gross margin, reduce inventories (excluding acquisitions and new stores), and optimize the network of existing stores and distribution centres.

Interest, amortization and depreciation

Interest on long-term debt and bank loans for the first half of 2009 was reduced by \$5.3 million to \$11.6 million, down 31.3% from the \$16.9 million posted in 2008. This reduction is owing to highly disciplined management of our balance sheet and capital investments, resulting in lower debt levels. The reduction is also due in part to the decline in interest rates over the last year and the proceeds of a stock issue on June 2, 2009, which was used to reduce the Company's debt levels at the end of the quarter.

Amortization and depreciation costs for the first half of 2009 were \$51.5 million, up \$1 million from the \$50.5 million posted in 2008. As mentioned earlier, a sum of \$2.7 million was posted in second quarter 2008 in relation to the closures of underperforming stores. Excluding this amount, amortization and depreciation costs were \$47.8 million in the first half of 2009, an increase of \$3.7 million or 7.7% over 2008. This increase can be attributed to new corporate store openings, the renovation program for existing corporate stores and ongoing improvements to our information systems.

Net earnings

Net earnings, including unusual items, in the first half of 2009 dropped to \$58.3 million or \$0.49 per share (diluted), down 21.5% from \$74.2 million or \$0.64 per share (diluted) in 2008. The factors that affected operating income also apply to the change in net earnings. In addition to these factors, there was an increase in fixed costs related to the expansion of the network, including amortization related to recent store openings, major renovations and ongoing improvements to our information systems.

Excluding the unusual items related to the cost of store closures, net earnings were \$64.0 million or \$0.54 per share (diluted) in the first half of 2009, compared to \$78.2 million or \$0.67 per share (diluted) in 2008. This decrease of \$14.2 million or 18.2% reflects downward pressure on sales, especially in the residential construction segment, which could not be entirely offset by the efficiency improvement measures implemented since the beginning of the year.

CASH FLOWS AND FINANCIAL POSITION

Operations generated \$86.6 million in the second quarter of 2009, compared to \$105.0 million in the corresponding quarter of 2008. Net of increases in working capital, operations generated \$184.6 million, compared to \$278.6 million in 2008. In the first half of 2009, operations generated \$113.5 million, compared to \$126.5 million in 2008. Net of increases in working capital, operations generated \$116.5 million, down from \$151.6 million in 2008.

During second quarter 2009, we invested \$50.0 million in capital spending, compared to \$47.8 million in 2008. These investments were devoted 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 allotted part of these investments to ongoing improvements in our IT systems, in order to increase our operational efficiency. One company was acquired at the beginning of the quarter for \$3.2 million. The Company has exercised disciplined financial management for the entire quarter and has strictly monitored investments in fixed assets. Non-core assets were also sold off during this quarter, generating an additional cash inflow of \$2.0 million.

In six months of activity, RONA invested \$91.0 million in capital spending, just \$1 million more than the \$90.0 million spent in 2008. RONA management plans to invest about \$160 million during 2009 – \$36 million or 18.4% less than in 2008, because of market conditions.

On June 30, 2009, the Company issued an additional 1,744,500 common shares at the price of \$12.90 per share, subsequent to the exercise in full by the underwriters of their overallotment option in connection with the Company's bought-deal public offering announced on May 12, 2009. According to the terms of the initial offering, a total of

11,630,000 shares were issued for gross proceeds of \$150.0 million on June 2, 2009. As a result of the exercise of the overallotment option, the aggregate gross proceeds to RONA now total \$172.5 million for 13,374,500 shares.

Funds generated from the share issue and from our operations as well as our disciplined management of working capital over the course of the quarter enabled us to reduce our bank loans and revolving credit facility by \$149.7 million. The Company's net debt was reduced by \$259.2 million, compared to 2008 and interest costs on long-term debt and bank loans were reduced by 36.1%. As at June 28, 2009, RONA has \$139 million in cash and cash equivalents, which will be used over forthcoming quarters to develop various growth projects in Phase 2 of the Company's 2008-2011 strategic plan.

RONA's balance sheet is strong. On June 28, 2009, the ratio of total debt to capital was 21.6%, compared to 30.2% at the end of the corresponding quarter in 2008. The ratio of equity to assets was 58.2% at the end of second quarter 2009, compared to 50.6% at the same date in 2008.

OUTLOOK

The most recent statistics published by the CMHC, as well as predictions by the Bank of Canada, seem to indicate a turnaround in economic conditions in Canada, which could have a positive influence on Canadian consumer confidence and activity in the quarters ahead. RONA management, however, will remain cautious in our projections, since there is no indication as yet that the situation is improving in our industry. Consumer confidence is still relatively low, and unemployment is very high, and this is leading consumers to proceed with caution and undertake only minor renovation projects.

In this economic context, we will continue for the next few quarters to pursue the numerous optimization measures under the PEP program in Phase 1 of the 2008-2011 strategic plan. Given the major gains in efficiency achieved to date under the PEP program and the Company's increased financial flexibility in the wake of our issue of common shares in June, RONA management believes the Company is in an excellent position to commence Phase 2 of the 2008-2011 strategic plan at the beginning of 2010, as planned. We are currently finalizing plans for this phase, which will focus on the re-acceleration of RONA's development activities so as to take full advantage of the four growth vectors that have been the wellsprings of our success for many years.

SUBSEQUENT EVENT

On June 30, 2009, the Company issued an additional 1,744,500 common shares at the price of \$12.90 per share, subsequent to the exercise in full by the underwriters of their overallotment option in connection with the Company's bought-deal public offering announced on May 12, 2009. According to the terms of the initial offering, a total of 11,630,000 shares were issued for gross proceeds of \$150.0 million on June 2, 2009. As a result of the exercise of the overallotment option, the aggregate gross proceeds to RONA now total \$172.5 million for 13,374,500 shares.

ADDITIONAL INFORMATION

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

NON-GAAP PERFORMANCE MEASURES

In this *News Release*, as in our internal management, we use the concept of "earnings before interest, taxes, depreciation, amortization and non-controlling interest" (EBITDA), which we also refer to as "operating income." This measure corresponds to "Earnings before the following items" in our consolidated financial statements. We also use the concept of "adjusted gross margin," which corresponds to sales less the cost of goods sold, including all vendor rebates. While EBITDA does not have a definition that is standardized by GAAP, it is widely used in our industry and

in financial circles to measure the profitability of operations, excluding tax considerations and the cost and use of capital. Adjusted gross margin is used by RONA management to analyze the profitability of our network, including all vendor rebates. Given that they are not standardized, EBITDA and adjusted gross margin cannot be strictly compared from one company to the next. However, we establish them in the same way for the segments identified, and, unless expressly mentioned, our method does not change over time.

EBITDA and adjusted gross margin must not be considered in isolation or as substitutes for other performance measures calculated according to GAAP, but rather as additional information. 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 and www.rona.ca. In particular, further details and descriptions of these and other factors are disclosed in the MD&A under the “Risks and uncertainties” section and in the “Risk factors” section of the Company's current Annual Information Form.

The forward-looking statements in this *News release* reflect the Company's expectations as at August 11, 2009, and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

ABOUT RONA

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of nearly 700 corporate, franchise and affiliate stores of various sizes and formats. With over 29,000 employees working under its family of banners in every region of Canada and more than 15 million square feet of retail space, the RONA store network generates over \$6 billion in annual retail sales.

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MANAGEMENT DISCUSSION AND ANALYSIS FOR SECOND QUARTER 2009 13-WEEK AND 26-WEEK PERIODS ENDED JUNE 28, 2009

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

FINANCIAL STATEMENTS

RONA's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are expressed in Canadian dollars. RONA has filed its unaudited consolidated financial statements for the 13-week and 26-week periods ended June 28, 2009, with the Canadian Securities Administrators. These statements can be viewed online at www.sedar.com or on RONA's website at www.rona.ca. This *Management Discussion and Analysis ("MD&A")* should be read in conjunction with the Company's financial statements and related notes.

NON-GAAP PERFORMANCE MEASURES

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

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

NEW ACCOUNTING STANDARD

Readers of this MD&A will note the adoption of a new accounting standard in the first quarter of 2009, which restated the results presented in 2008.

At the beginning of 2009 the Company retroactively adopted Section 3064 of the Canadian Institute of Chartered Accountants (CICA) Handbook, *Goodwill and intangible assets*, which replaces Section 3062 of the same title. This section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including internally generated intangible assets. Pre-opening expenses for stores and distribution centres (previously included in Other Assets), advertising costs, including those related to store openings, and costs incurred for Olympic and Paralympic sponsorship (previously included in Prepaid Expenses) no longer meet the requirements of the new section. The balances in these asset accounts as at December 31, 2007 – that is, at the beginning of first quarter 2008 – were restated and included in Retained Earnings and the results of operations in 2008 were also restated to conform to the 2009 presentation.

In summary, operating income for second quarter 2008 has been reduced by \$7.0 million, amortization and depreciation by \$1.9 million, and net earnings by \$3.5 million, or a reduction of \$0.03 per share. For the first half of 2008, operating income was reduced by \$13.8 million, amortization and depreciation by \$3.9 million and net earnings by \$6.9 million, for a total reduction of \$0.06 per share.

Prepaid expenses were also reduced by \$32.0 million, other assets by \$5.8 million, and retained earnings by \$20.5 million. The detailed impact of applying these new recommendations during the first period of application of Section 3064 is explained on page 23 of this report and in Note 2 of the Consolidated Financial Statements.

UPDATE ON THE COMPANY'S STRATEGIC ORIENTATION

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

Achievements in second quarter 2009

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

1. Improve the profitability of our corporate store network:

- Consolidated gross margin increased by 20 basis points. Including improved terms and conditions from our suppliers to support the growth of the network, the adjusted gross margin increased by 41 basis points. These increases stem from a reduction in store losses ("shrink") and further improvements in purchasing conditions from our suppliers.
- The big-box Réno-Dépôt store in Lasalle, Quebec, was entirely rebuilt and expanded following the demolition of the old store with the same banner in the same location. The new store measures 130,000 square feet.
- Our turnaround plan for underperforming stores is producing very good results, as these stores have posted relatively better sales and operating income progress than the network as a whole during this quarter.
- In-depth studies of new product categories were conducted in this quarter and will be considered in selecting products in the future, especially with regard to safety and security products, small appliances, work and gardening clothes, and auto care products.
- New store concepts are under study for deployment in Phase 2 of the RONA 2008-2011 strategic plan, which should mark a return to accelerated growth. One of these concepts – a specialized store unique in the industry – is ready to be unveiled. In addition to offering carefully selected interior decorating products and an innovative approach to paint selection, the new concept will provide an unrivalled consultation and technical support service designed to meet the needs of paint and interior decorating professionals as well as regular Canadian consumers. This concept will initially be introduced this coming fall at three different locations in the Greater Montreal Area.

2. Optimize the supply chain:

- Comparable store and distribution centre inventories were reduced by \$61 million in second quarter 2009 (excluding acquisitions and new stores) compared to second quarter 2008, resulting in lower operating costs and financing charges. Including acquisitions and new stores, inventories were reduced by \$52 million.
- Reduced transportation costs and ongoing improvements in demand management, resulting in a reduction of nearly \$1 million in logistics costs in second quarter 2009.
- Introduction of several new imported products, including a line of controlled-label HAUSSMANN tool products.

3. Accelerate recruitment of independent dealer-owners:

- During the quarter ended June 28, 2009, RONA recruited four new independent dealer-owners: three in Western Canada and one in Quebec. These dealer-owners represent estimated annual retail sales of over \$5 million. Since the end of the second quarter, one more dealer-owner has been recruited in Western Canada. Altogether, 11 dealer-owners have been recruited since the beginning of the year, representing estimated annual retail sales of over \$30 million.
- RONA dealer-owners have been very busy this year, completing 20 expansion and renovation projects totalling nearly \$30 million in investments. In the second quarter, one RONA dealer-owner recruited last year opened a new 52,000-square-foot proximity store in Grande Prairie, Alberta, and another, in British Columbia, opened a 25,000-square-foot store. A RONA dealer-owner in Ontario merged his two stores with the RONA big-box store in Windsor, and one in British Columbia acquired a neighbouring Home Hardware store.
- Several recruitment applications are under study in different parts of the country, and these represent real potential for the quarters ahead. A major effort this fall will use an innovative approach to demonstrate to potential recruits the many advantages of joining the RONA family.

4. Improve sales and increase customer loyalty across the RONA network:

- Over 10% growth in commercial and professional sales for big-box stores in Ontario, achieved through close cooperation with the specialized sales team in our Commercial and Professional Market division.
- Same-store sales growth for Noble Trade Plumbing Supplies, despite a declining market.
- Increase of over 15% in installation service sales.
- A major increase in applications for the RONAdvantage program, which provides rebates in the form of gift certificates to a maximum of \$1,000 as a complementary incentive under the new renovation tax credit programs. Nearly 10,000 applications have been received to date across the RONA network. RONAdvantage is the industry's only ongoing complementary incentive program for the renovation tax credits. The program is receiving increasing support from the various levels of government.
- Launch of new controlled-label HAUSSMANN and HAUSSMANN XPERT top-quality tool products, now available in all RONA stores, including Réno-Dépôt in Quebec. HAUSSMANN and HAUSSMANN XPERT tools and accessories are exclusive to RONA and make use of the latest technology in the professional tool industry.
- Introduction of 40 new RONA ECO products. Selected in partnership with the International Chair in Life Cycle Analysis, these new products include a manual lawn mower, reconditioned tool blades, mouldings, an algae-based fertilizer and a rainwater collector.
- Increased penetration by RONA private brand and controlled-label products to over 18% in the second quarter, despite a slight decrease in sales.
- RONA ranked twelfth among 100 companies in the annual Léger Marketing survey of the reputations of Canadian companies, up from fifteenth in 2008. The results of this survey were published in the latest edition of *Marketing* magazine, and RONA was rated first among all renovation sector companies. RONA also made it to 18th position among the top Canadian businesses in the Corporate Knights annual Best 50 Corporate Citizens rankings. In its first appearance in this ranking, RONA achieved the second-highest score in the retail sector and the highest in the home improvement retail industry.

ANALYSIS OF CONSOLIDATED RESULTS

Economic conditions

In second quarter 2009, the behaviour of Canadian consumers continued to be affected by three main factors: the major slowdown of the Canadian economy (which shrank by 5.3% in the first quarter and is expected to contract a further 3.4% in the second quarter, according to the most recent Bank of Canada *Monetary Policy Report*), the significant increase in the unemployment rate and further slackening in the real estate sector. These three factors have continued to have a significant impact on consumer confidence in the second quarter, which is still lagging behind last year, despite a slight increase in the past few months.

In the first half of 2009, housing starts for single-family homes fell by 40.4% in urban Canada, according to CMHC estimates. The decrease was particularly significant in the West and in Ontario. In terms of sales of existing homes, the trend is also downward, with a 10.5% reduction in units sold in Canada's major urban centres in the first half of 2009 compared to 2008. Average prices declined 2.5% over the same period. In June, the decline in housing starts compared to 2008 was lower than in the preceding months, while resales and average prices were up, indicating a break in the series of major declines in activity in the Canadian housing market.

The worst seems to be behind us, according to the July 23 issue of the Bank of Canada *Monetary Policy Report*. The Bank projects that Canadian GDP growth will turn positive in third quarter 2009. The Bank also left the prime rate unchanged at 0.25%. Very low mortgage rates and the introduction of federal and provincial renovation tax credits are expected to stimulate renovation activity nationwide over the coming quarters. The fundamentals are also positive for renovation in Canada, since more than 65% of existing dwellings are over 25 years old and need maintenance and repair work. Baby boomers represent roughly 30% of the population and they are investing major sums in their homes and secondary residences. And there is still plenty of interest in interior decorating and gardening activities. Last but not least, next-generation Canadians are looking for one-stop solutions for their renovation projects and outstanding service in a friendly store near their home.

RONA is watching all these different trends closely as we develop new store formats and concepts, select our products and product categories, and develop innovative services in order to be ready to move forward rapidly when the economy recovers.

Consolidated sales

Consolidated sales for second quarter 2009 were \$1,369.9 million, down \$103.3 million or 7.0% less than the \$1,473.3 million posted in 2008. This decline is largely the result of a 6.2% drop in same-store sales, due mainly to a major fall in housing starts, especially in Western Canada, which substantially impacted sales in our specialized building materials stores. Same-store sales were also negatively impacted by 0.75% because the second quarter of 2009 was shorter than 2008 by one business day, due to a statutory holiday. Again in the second quarter, weather conditions were poor for renovation-construction activities and sales of seasonal items and air-conditioning products.

Gross margin

For second quarter 2009, the gross margin improved by 20 basis points from 27.00% to 27.20%. Given better terms and conditions from our suppliers and the resulting supportive effect on growth of the network, the adjusted gross margin rose by 41 basis points from 29.40% to 29.81%. These increases stem from a reduction in in-store losses ("shrink"), better management of product categories, and further improvements in terms and conditions from our suppliers.

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

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

In second quarter 2008, the Company posted \$6.9 million in store closure costs, of which \$4.2 million affected operating income. In second quarter 2009, costs of \$8.2 million were posted, largely due to final closure of the Scarborough store, which remained in operation until April. Final closure of the Richmond store took place in third quarter 2008. In second quarter 2008, the Company also sold some non-strategic assets and realized a before-tax gain of \$1.4 million.

Consolidated operating income

Operating income, including unusual items related to store closures and the gain on disposal of assets mentioned above, was \$122.9 million in second quarter 2009, down \$27.4 million or 18.3% from the \$150.3 million figure posted in 2008. The EBITDA margin dropped from 10.20% in 2008 to 8.97% in 2009, a decrease of 123 basis points, which can be attributed to downward pressure on same-store sales and the cost of store closures.

Excluding unusual items, operating income was \$131.1 million in second quarter 2009, down \$22.1 million or 14.4% from 2008. The EBITDA margin declined from 10.40% in 2008 to 9.57% in 2009, down 83 basis points.

This decline in operating income and EBITDA margin is largely attributable to weaker same-store sales, increased promotional activities and our ongoing support for various value-added services available in our stores, including the RONAdvantage tax credit incentive program, Project Guide, and installation services.

The numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008-2011 strategic plan have helped offset the negative impact of weaker sales. In the second quarter, the PEP program helped improve the gross margin by 20 basis points and the adjusted gross margin by 41 basis points, reduce comparable inventory levels by \$61 million, reduce transportation and logistics costs by nearly \$1 million, and optimize the network of existing stores.

Interest, amortization and depreciation

RONA's interest expenses on long-term debt and bank loans for second quarter 2009 decreased by \$3.2 million to \$5.7 million, down 36.1% from \$9.0 million in 2008. This decrease is attributable to highly disciplined management of our balance sheet and capital investments, resulting in lower debt levels. The reduction is also due in part to declining interest rates over the last year and the proceeds from a stock issue on June 2, 2009, which was used to reduce the Company's debt levels at the end of the quarter.

Amortization costs for second quarter 2009 were \$26.6 million, down \$0.6 million or 2.2% from \$27.2 million in 2008. However, \$2.7 million was posted in second quarter 2008 in relation to the closures of underperforming stores. Excluding this amount, second quarter 2008 amortization and depreciation costs were \$24.5 million. Using this figure, second quarter 2009 amortization and depreciation costs were \$2.1 million or 8.6% higher than in 2008. This increase stems from new corporate store openings, the renovation program for existing corporate stores, and ongoing improvements to our information systems.

Net earnings

Net earnings, including unusual items, declined by 20.7% to \$60.8 million, or \$0.51 per share (diluted), compared to \$76.6 million or \$0.66 per share (diluted) in 2008. The factors that affected operating income also affected net earnings. These factors were partly offset by a major reduction in interest costs this quarter.

Excluding unusual items related to the cost of store closures and the gain on disposal of assets mentioned above, net earnings were \$66.5 million in second quarter 2009, or \$0.55 per share (diluted), compared to \$80.6 million or \$0.69 per share (diluted) in 2008 – a decrease of \$14.2 million or 17.6%.

ANALYSIS OF SEGMENT RESULTS

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

RONA: Key segment figures for the quarter ended June 28, 2009

(In thousands of dollars)	Q2-2009	Q2-2008 (restated)	\$ Change from Q2-2008	% Change from Q2-2008
Segment sales				
Corporate and franchise stores	1,040,093	1,130,019	(89,926)	(8.0%)
Distribution	693,709	716,982	(23,273)	(3.2%)
Total	1,733,802	1,847,001	(113,199)	(6.1%)
Intersegment sales and royalties				
Corporate and franchise stores	-	-	-	-
Distribution	(363,895)	(373,747)	9,852	(2.6%)
Total	(363,895)	(373,747)	9,852	(2.6%)
Sales				
Corporate and franchise stores	1,040,093	1,130,019	(89,926)	(8.0%)
Distribution	329,814	343,235	(13,421)	(3.9%)
Total	1,369,907	1,473,254	(103,347)	(7.0%)
Operating income				
Corporate and franchise stores	96,846	123,380	(26,534)	(21.5%)
Distribution	26,030	26,941	(911)	(3.4%)
Total	122,876	150,321	(27,445)	(18.3%)
EBITDA margin				
Corporate and franchise stores	9.31%	10.92%	-	-161 b.p.
Distribution	7.89%	7.85%	-	+ 4 b.p.
Total	8.97%	10.20%	-	-123 b.p.
Operating income (excluding unusual items)				
Corporate and franchise stores	105,065	126,224	(21,159)	(16.8%)
Distribution	26,030	26,941	(911)	(3.4%)
Total	131,095	153,165	(22,070)	(14.4%)
EBITDA margin (excluding unusual items)				
Corporate and franchise stores	10.10%	11.17%	-	-107 b.p.
Distribution	7.89%	7.85%	-	+ 4 b.p.
Total	9.57%	10.40%	-	-83 b.p.

Note: Results from 2008 have been restated to reflect the application of Section 3064, *Goodwill and intangible assets* of the Canadian Institute of Chartered Accountants' (CICA) Handbook.

Corporate and franchise stores

For second quarter 2009, sales in the corporate and franchise store sector were \$1,040.1 million, a decrease of \$89.9 million or 8.0% from 2008. As mentioned in the discussion of our consolidated results, this reduction is due largely to a 6.2% decrease in same-store sales. These are attributable in large part to the major fall in housing starts, especially in Western Canada, which substantially impacted sales in our specialized building materials stores. Same-store sales also lost 0.75% under negative pressures because the second quarter of 2009 was shorter than 2008 by one business day, due to a statutory holiday. Again in the second quarter, weather conditions were poor for renovation-construction activities and sales of seasonal items and air-conditioning products.

RONA's customer loyalty and sales stimulation activities, combined with employee efforts to deliver the best service and best shopping experience in our industry, helped limit the decreases in numbers of in-store transactions. Given

the low level of consumer confidence, our customers seem to have limited themselves to smaller renovation projects this quarter, leading to downward pressure on the size of the average shopping basket. The categories that posted the best performance this quarter were those related to small home improvement projects such as paint and hardware. Related services, such as installation, continued to show strong sales growth. It is important to remember, however, that the enormous popularity of the provincial and federal tax credit programs may encourage consumers to invest more in renovating their properties in the coming quarters.

Several initiatives were established in 2008 and early 2009 to stimulate sales and compensate for the downward pressure on sales in our industry. These initiatives, such as Project Guides, new RONA-by-Design concepts, new private brand and controlled-label products, including a line of eco-responsible products, RONA Eco products, and HAUSSMANN brand tools, have produced very promising results.

Finally, the Réno-Dépôt big-box store in Lasalle, Quebec, was completely rebuilt and expanded after demolition of the old store under the same banner at the same location. The new 130,000-square-foot store opened at the beginning of this quarter. Early in the quarter, RONA also continued its growth in the Atlantic Provinces, with the acquisition of Bishop's Building Center. This new acquisition was integrated with the existing network of 8 Chester Dawe stores in Newfoundland. Including Bishop's, RONA and its affiliate dealer-owners now operate 26 stores of varying formats in the Atlantic Provinces.

Operating income from retail activities, including unusual items related to the cost of store closures and the gain on disposal of assets mentioned in our discussion of consolidated results, was \$96.8 million, compared to \$123.4 million in second quarter 2008. Despite an increase in gross margin, the EBITDA margin from retail activities decreased by 161 basis points from 10.92% in 2008 to 9.31% in 2009. Excluding unusual items, operating income was \$105.1 million in second quarter 2009, down \$21.2 million or 16.8% from 2008. The EBITDA margin dropped from 11.17% in 2008 to 10.10% in 2009, a drop of 107 basis points. This decrease can be attributed to downward pressure on same-store sales. Several promotional activities were also held during this quarter, and sustained efforts were made to support our various value-added services, including the RONAdvantage renovation tax credit incentive program, Project Guides, and installation services. The numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008-2011 strategic plan have helped partly offset the negative impacts of these factors. In the retail sector, the PEP program also helped improve our gross margin, optimize our network of existing stores and improve the process for opening new stores.

Distribution

Net of intersegment activities, distribution sales declined by 3.9% to \$329.8 million in second quarter 2009, compared to \$343.2 million in 2008. The source of this decrease is a drop in same-store sales among our affiliates, which could not be offset by the recruitment of new independent dealer-owners. Just as in our corporate stores, affiliate dealer-owner sales were affected by the decrease in housing starts, especially in the West.

In the quarter ended June 28, 2009, RONA recruited four new independent dealer-owners: three in Western Canada and one in Quebec. These dealer-owners represent estimated annual retail sales of over \$5 million. Since the end of the second quarter, one more dealer-owner has been recruited in Western Canada. Altogether, 11 dealer-owners have been recruited since the beginning of the year, representing estimated annual retail sales of over \$30 million.

In the second quarter, one RONA dealer-owner recruited last year opened a new 52,000-square-foot proximity store in Grande Prairie, Alberta, and another opened a 25,000-square-foot store in British Columbia. A RONA dealer-owner in Ontario merged his two stores with the RONA big-box store in Windsor, and one in British Columbia acquired a neighbouring Home Hardware store.

Distribution activities resulted in \$26.0 million in operating income in second quarter 2009, compared to \$26.9 million in 2008, a decrease of just \$0.9 million or 3.4%. The EBITDA margin increased by 4 basis points. The growth of the EBITDA margin stems largely from a reduction in transportation costs, optimization of trailer transportation volumes, optimization of distribution channels, and improved productivity in our distribution centres.

ANALYSIS OF CONSOLIDATED RESULTS FOR THE FIRST HALF OF 2009

Consolidated sales

Consolidated sales for the first half of 2009 were \$2,215.9 million, down \$168.9 or 7.1% from the \$2,384.8 million posted in 2008. This decline can be attributed to the decrease in same-store sales, which was more pronounced at the beginning of the year. This decrease stems from the low level of consumer confidence among Canadians, a sharp decline in the number of housing starts for single-family homes, especially in the West, and weather conditions that have been especially poor for construction and renovation activities ever since the beginning of the year.

Gross margin

In the first half of 2009, the Company's gross margin improved by 23 basis points from 27.37% in 2008 to 27.60% in 2009. Given better terms and conditions from our suppliers and the resulting supportive effect on growth of the store network, the adjusted gross margin rose 53 basis points from 30.00% to 30.53%. This growth is due to a reduction in in-store losses ("shrink"), further improvements in terms and conditions from our suppliers, and better management of product categories.

Consolidated operating income

Operating income, including unusual items, was \$148.4 million in the first half of 2009, down \$28.6 million or 16.1% from the \$176.9 million recorded in 2008. The EBITDA margin declined from 7.42% in 2008 to 6.70% in 2009, a drop of 72 basis points, due to store closures and downward pressure on same-store sales.

Excluding unusual items related to the cost of store closures in second quarter 2009 and the corresponding quarter in 2008, operating income was \$156.6 million in the first half of 2009, down \$23.2 million or 12.9% from 2008. The EBITDA margin declined from 7.54% in 2008 to 7.07% in 2009, a decrease of 47 basis points.

This decline can be largely explained by current downward pressure on sales in the renovation-construction industry, stemming from the major reduction in housing starts since the beginning of the year and the decline in the level of consumer confidence. As mentioned in our discussion of second-quarter results, the numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008-2011 strategic plan have helped offset the negative impact of these factors. During the first half of the year, the PEP program helped improve the gross margin, reduce inventories (excluding acquisitions and new stores), and optimize the network of existing stores and distribution centres.

Interest, amortization and depreciation

Interest costs on long-term debt and bank loans for the first half of 2009 were reduced by \$5.3 million to \$11.6 million, down 31.3% from the \$16.9 million posted in 2008. This reduction is owing to highly disciplined management of our balance sheet and capital investments, resulting in lower debt levels. The reduction is also due in part to the decline in interest rates over the last year and the proceeds of a stock issue on June 2, 2009, which was used to reduce the Company's debt levels at the end of the quarter.

Amortization and depreciation costs for the first half of 2009 were \$51.5 million, up \$1 million from the \$50.5 million posted in 2008. As mentioned earlier, a sum of \$2.7 million was posted in second quarter 2008 in relation to the closures of underperforming stores. Excluding this amount, amortization and depreciation costs were \$47.8 million in the first half of 2009, an increase of \$3.7 million or 7.7% over 2008. This increase can be attributed to new corporate store openings, the renovation program for existing corporate stores and ongoing improvements to our information systems.

Net earnings

Net earnings, including unusual items, in the first half of 2009 dropped to \$58.3 million or \$0.49 per share (diluted), down 21.5% from \$74.2 million or \$0.64 per share (diluted) in 2008. The factors that affected operating income also apply to the change in net earnings. In addition to these factors, there was an increase in fixed costs related to the expansion of the network, including amortization related to recent store openings, major renovations and ongoing improvements to our information systems.

Excluding the unusual items related to the cost of store closures, net earnings were \$64.0 million or \$0.54 per share (diluted) in the first half of 2009, compared to \$78.2 million or \$0.67 per share (diluted) in 2008. This decrease of \$14.2 million or 18.2% reflects downward pressure on sales, especially in the residential construction segment, which could not be entirely offset by the efficiency improvement measures implemented since the beginning of the year.

ANALYSIS OF SEGMENT RESULTS FOR THE FIRST HALF OF 2009

RONA: Key segment figures, first half ended June 28, 2009

(In thousands of dollars)	First half 2009	First half 2008 (restated)	\$ Change from 2008	% Change from 2008
Segment sales				
Corporate and franchise stores	1,657,185	1,813,048	(155,863)	(8.6%)
Distribution	1,170,083	1,208,383	(38,300)	(3.2%)
Total	2,827,268	3,021,431	(194,163)	(6.4%)
Intersegment sales and royalties				
Corporate and franchise stores	–	–	–	–
Distribution	(611,351)	(636,643)	25,292	(4.0%)
Total	(611,351)	(636,643)	25,292	(4.0%)
Sales				
Corporate and franchise stores	1,657,185	1,813,048	(155,863)	(8.6%)
Distribution	558,732	571,740	(13,008)	(2.3%)
Total	2,215,917	2,384,788	(168,871)	(7.1%)
Operating income				
Corporate and franchise stores	106,373	136,667	(30,294)	(22.2%)
Distribution	41,995	40,257	1,738	4.3%
Total	148,368	176,924	(28,556)	(16.1%)
EBITDA margin				
Corporate and franchise stores	6.42%	7.54%	–	–112 b.p.
Distribution	7.52%	7.04%	–	+ 48 b.p.
Total	6.70%	7.42%	–	–72 b.p.
Operating income (excluding unusual items)				
Corporate and franchise stores	114,611	139,511	(24,900)	(17.8%)
Distribution	41,995	40,257	1,738	4.3%
Total	156,606	179,768	(23,162)	(12.9%)
EBITDA margin (excluding unusual items)				
Corporate and franchise stores	6.92%	7.69%	–	–77 b.p.
Distribution	7.52%	7.04%	–	+ 48 b.p.
Total	7.07%	7.54%	–	–47 b.p.

Note: Results from 2008 have been restated to reflect the application of Section 3064, *Goodwill and intangible assets* of the Canadian Institute of Chartered Accountants' (CICA) Handbook.

Corporate and franchise stores

For the first half of 2009, sales from the corporate and franchise store sector amounted to \$1,657.2 million, compared to \$1,813.0 million for the corresponding period in 2008. This decrease of \$155.9 million or 8.6% can be attributed to weaker same-store sales, especially early in the new year, due to the low level of consumer confidence, a sharp decline in housing starts, especially in the West, and weather conditions that have been poor for renovation-construction activities and sales of seasonal products ever since the beginning of 2009. The many sales stimulation and customer loyalty programs implemented in 2008 helped limit the decreases in numbers of in-store transactions,

but given the current economic situation, consumers are noticeably cautious and have been limiting themselves to smaller renovation projects so far this year.

Operating income from retail activities was \$106.4 million, compared to \$136.7 million in the first half of 2008. Despite a higher gross margin and other efficiency gains, the EBITDA margin for retail activities decreased 112 basis points from 7.54% in 2008 to 6.42% in 2009. Excluding unusual items related to store closure costs, operating income was \$114.6 million in the first half of 2009, down \$24.9 million or 17.8% from 2008, and the EBITDA margin declined from 7.69% in 2008 to 6.92% in 2009, a decrease of 77 basis points. As mentioned in the analysis of the second quarter results, this decline can be attributed to downward pressure on same-store sales, increased promotional activities and our ongoing efforts to provide a variety of value-added services for our customers, despite a less favourable environment for construction and renovation activities. The numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008-2011 strategic plan have partly helped offset these negative factors.

Distribution

Net of intersegment activities, distribution sales declined by 2.3% to \$558.7 million in the first half of 2009, compared to \$571.7 million in 2008. The source of this decline is a drop in same-store sales among our affiliates, which could not be offset by the recruitment of new independent dealer-owners. Just as in our corporate stores, affiliate dealer-owner sales were affected by the decrease in housing starts, especially in the West.

In the first half of 2009, RONA recruited 10 new independent dealer-owners: five in Western Canada, one in Ontario and four in Quebec. Since the end of the second quarter, one more dealer-owner has been recruited in the West. Altogether, since the beginning of the year, 11 dealer-owners have been recruited, representing estimated annual retail sales of over \$30 million.

RONA dealer-owners have been very busy this year, completing 20 expansion and renovation projects totalling nearly \$30 million in investments. In the second quarter, one RONA dealer-owner recruited last year opened a new 52,000-square-foot proximity store in Grande Prairie, Alberta, and another opened a 25,000-square-foot store, in British Columbia. A RONA dealer-owner in Ontario merged his two stores with the RONA big-box store in Windsor, and one in British Columbia acquired a neighbouring Home Hardware store.

Distribution activities resulted in operating income of \$42.0 million in the first half of 2009, compared to \$40.3 million in 2008, an increase of \$1.7 million or 4.3%. The EBITDA margin increased by 48 basis points. The increase in operating income and EBITDA margin stems mainly from a reduction in transportation costs, optimization of trailer transportation volumes and improved productivity in our distribution centres.

CASH FLOWS AND FINANCIAL POSITION

Operations generated \$86.6 million in the second quarter of 2009, compared to \$105.0 million in the corresponding quarter of 2008. Net of increases in working capital, operations generated \$184.6 million, compared to \$278.6 million in 2008. In the first half of 2009, operations generated \$113.5 million, compared to \$126.5 million in 2008. Net of increases in working capital, operations generated \$116.5 million, down from \$151.6 million in 2008.

During second quarter 2009, we invested \$50.0 million in capital spending, compared to \$47.8 million in 2008. These investments were devoted to the expansion of our retail network, i.e., construction of new stores as well as maintenance, renovations and upgrades of existing stores to reflect our new concepts, especially for stores flying the Réno-Dépôt banner. We also allotted part of these investments to ongoing improvements in our IT systems, in order to increase our operational efficiency. One company was acquired at the beginning of the quarter for \$3.2 million. The Company has exercised disciplined financial management for the entire quarter and has strictly monitored investments in fixed assets. Non-core assets were also sold off during this quarter, generating an additional cash inflow of \$2.0 million.

In six months of activity, RONA invested \$91.0 million in capital spending, just \$1 million more than the \$90.0 million spent in 2008. RONA management plans to invest about \$160 million during 2009 – \$36 million or 18.4% less than in 2008, because of market conditions.

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

Funds from the share issue and generated from our operations as well as disciplined management of working capital over the course of the quarter enabled us to reduce bank loans and revolving credit by \$149.7 million. The Company's net debt was reduced by \$259.2 million, compared to 2008 and interest expenses on long-term debt and bank loans were reduced by 36.1%. As at June 28, 2009, RONA has \$139 million in cash and cash equivalents, which will be used over forthcoming quarters to develop various growth projects in Phase 2 of the Company's 2008-2011 strategic plan.

The table below presents a synopsis of the Company's contractual obligations as at June 28, 2009, including off-balance-sheet operating lease agreements used in the normal course of business. The Company has also concluded other off-balance-sheet arrangements (such as inventory buyback agreements and guaranteed mortgage loans), which do not appear on the table below. The Company guarantees mortgages for an amount of \$1.6 million. The terms of these loans extend until 2012 and the net carrying amount of the assets held as security, which mainly include land and buildings, is \$5.8 million. Pursuant to the terms of inventory repurchase agreements, the Company is committed to 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 \$69.1 million. In the event of recourse, this inventory would be sold in the normal course of the Company's operations. These agreements have undetermined periods but may be cancelled by the Company on 30 days' notice. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low. Finally, import letters of credit totalling nearly \$10 million were in circulation at the end of the quarter for the purchase of a variety of products (mainly seasonal).

**RONA: Contractual obligations by term
(as at June 28, 2009)**

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	438,387	4,732	15,524	12,052	406,079
Obligations under capital leases	9,238	4,098	4,187	865	88
Operating and other leases	1,170,756	121,028	229,244	196,309	624,175
Other long-term obligations	28,580	15,617	10,938	2,025	-
Total	1,646,961	145,475	259,893	211,251	1,030,342

**RONA: Outstanding shares
As at July 31, 2009**

Common shares	129,557,749
Unexercised options	2,014,694
Total	131,572,443

RONA's balance sheet is strong. On June 28, 2009, the ratio of total debt to capital was 21.6%, compared to 30.2% at the end of the corresponding quarter in 2008. The ratio of equity to assets was 58.2% at the end of second quarter 2009, compared to 50.6% at the same date in 2008.

The Company's operations generate substantial cash flow. With relatively low debt and long-term fixed rates on most of its long-term debt, RONA also has substantial liquidity and can borrow many millions more at competitive rates. Our financial resources are therefore sufficient to pursue disciplined development of 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's results fluctuate significantly from one quarter to another due to the highly seasonal nature of renovation-construction activities. The strongest periods of the year are in spring and fall, and over 80% of the Company's net annual earnings are generated in the second and third quarters. Furthermore, sales in the first quarter are always lower than in the other three, due to low activity levels in the renovation-construction sector during the winter. Poor weather conditions can also have a major impact on sales. With the increase in the proportion of our activities related to the corporate store and franchise segment, the seasonal impact of the first quarter has been more pronounced in 2007, 2008 and 2009 than in previous years. The second quarter is always the strongest of the year, followed by the third.

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

	2009		2008 (restated)				2007 (not restated)		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	1,369.9	846.0	1,124.6	1,381.7	1,473.3	911.5	1,087.0	1,350.5	1,469.1
Operating income	122.9	25.5	75.3	112.5	150.3	26.6	75.9	121.6	161.8
Operating income (ex. unusual items)	131.1	25.5	76.2	121.0	153.1	26.6	75.9	121.6	161.8
Net earnings (net loss)	60.8	(2.5)	29.8	52.5	76.6	(2.4)	30.5	59.4	86.2
Net earnings (net loss) (ex. unusual items)	66.5	(2.5)	30.4	58.9	80.6	(2.4)	30.5	59.4	86.2
Earnings (loss) per share (\$)	0.51	(0.02)	0.26	0.45	0.66	(0.02)	0.26	0.52	0.75
Earnings (loss) per share (\$) (ex. unusual items)	0.56	(0.02)	0.26	0.51	0.70	(0.02)	0.26	0.52	0.75
Diluted earnings (loss) per share (\$)	0.51	(0.02)	0.25	0.45	0.66	(0.02)	0.26	0.51	0.74
Diluted earnings (loss) per share (\$) (ex. unusual items)	0.55	(0.02)	0.26	0.50	0.69	(0.02)	0.26	0.51	0.74

Note: Results from 2008 have been restated to reflect the application of Section 3064 *Goodwill and intangible assets* of the Canadian Institute of Chartered Accountants' (CICA) Handbook.

Annual growth in same-store sales Last nine quarters

Q2-2007	Q3-2007	Q4-2007	Q1-2008	Q2-2008	Q3-2008	Q4-2008	Q1-2009	Q2-2009
+0.3%	-0.6%	-2.5%	-7.0%	-4.9%	-3.5%	-1.4%	-8.5%	-6.2%

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

OUTLOOK

The most recent statistics published by the CMHC, as well as predictions by the Bank of Canada, seem to indicate a turnaround in economic conditions in Canada, which could have a positive influence on Canadian consumer confidence and activity in the quarters ahead. RONA management, however, will remain cautious in our projections, since there is no indication as yet that the situation is improving in our industry. Consumer confidence is still relatively low, and unemployment is very high, and this is leading consumers to proceed with caution and undertake only minor renovation projects.

In this economic context, we will continue for the next few quarters to pursue the numerous optimization measures under the PEP program in Phase 1 of the 2008-2011 strategic plan. Given the major gains in efficiency achieved to date under the PEP program and the Company's increased financial flexibility in the wake of our issue of common shares in June, RONA management believes the Company is in an excellent position to commence Phase 2 of the 2008-2011 strategic plan at the beginning of 2010, as planned. We are currently finalizing plans for this phase, which

will focus on the re-acceleration of RONA's development activities so as to take full advantage of the four growth vectors that have been the wellsprings of our success for many years.

SUBSEQUENT EVENT

On June 30, 2009, the Company issued 1,744,500 common shares at a price of \$12.90 per share following the exercise of the over-allotment option in accordance with the terms of a firm underwriting on May 12, 2009 of 11,630,000 common shares. Including the gross proceeds from the firm underwriting of \$150.0 received on June 2, 2009 and the exercise of the over-allotment option, the aggregate gross proceeds to the Company amounted to \$172.5 for a total of 13,374,500 common shares.

RISKS AND UNCERTAINTIES

There have been no significant changes to the Company's principal risks and uncertainties during the second quarter of 2009. Please refer to the Annual MD&A for a complete description of the risks the Company faces.

CHANGES IN ACCOUNTING POLICIES

Goodwill and intangible assets

At the beginning of 2009, the Company retroactively adopted Section 3064 of the Canadian Institute of Chartered Accountants' (CICA) Handbook, *Goodwill and intangible assets*, which replaces Section 3062 of the same title. The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including internally generated intangible assets. Pre-opening expenses for stores and distribution centres (previously included in Other Assets), advertising costs, including those related to store openings, and costs incurred for Olympic and Paralympic sponsorship (previously included in Prepaid Expenses) no longer meet the requirements of the new section. The balances in these asset accounts as at December 31, 2007– that is, at the beginning of first quarter 2008 – were restated and included in Retained Earnings and the results of operations in 2008 were also restated to conform to the 2009 presentation.

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

(thousands of dollars)	2 nd quarter 2008			Cumulative to June 29, 2008		
	Previously reported	Adjustments	Restated	Previously reported	Adjustments	Restated
Consolidated results						
Earnings before the following items	\$157,284	\$(6,963)	\$150,321	\$190,685	\$(13,761)	\$176,924
Amortization and depreciation	29,113	(1,935)	27,178	54,360	(3,861)	50,499
Income taxes	36,713	(1,551)	35,162	36,783	(3,049)	33,734
Non-controlling interest	2,360	22	2,382	1,509	89	1,598
Net earnings and comprehensive income	80,119	(3,499)	76,620	81,134	(6,940)	74,194
Basic and diluted net earnings per share	0.69	(0.03)	0.66	0.70	(0.06)	0.64
Consolidated cash flows						
Net earnings	80,119	(3,499)	76,620	81,134	(6,940)	74,194
Amortization and depreciation	29,113	(1,935)	27,178	54,360	(3,861)	50,499
Future income taxes	23	(194)	(171)	101	(636)	(535)
Non-controlling interest	2,360	22	2,382	1,509	89	1,598
Changes in working capital items	164,534	9,009	173,543	11,429	13,646	25,075
Other assets	(2,070)	(3,403)	(5,473)	(4,172)	(2,298)	(6,470)
Consolidated balance sheets						
Assets						
Income taxes receivable				20,796	2,411	23,207
Prepaid expenses				65,796	(32,018)	33,778
Future income taxes – current				10,351	4,133	14,484
Other assets				28,485	(5,798)	22,687
Liabilities						
Future income taxes – current				3,716	(286)	3,430
Future income taxes – long term				22,631	(3,593)	19,038
Non-controlling interest				27,968	89	28,057
Retained earnings – beginning of year				892,967	(20,542)	872,425
As at December 28, 2008						
				Previously reported	Adjustments	Restated
Consolidated balance sheets						
Assets						
Income taxes receivable				\$ 6,046	\$ 429	\$ 6,475
Prepaid expenses				33,104	(21,902)	11,202
Future income taxes – current				13,800	5,474	19,274
Other assets				38,466	(11,256)	27,210
Liabilities						
Future income taxes – current				4,854	(393)	4,461
Future income taxes – long term				23,998	(2,694)	21,304
Non-controlling interest				29,098	122	29,220
Retained earnings – beginning of year				892,967	(20,542)	872,425

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

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

NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

Business combinations

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

Consolidated financial statements and non-controlling interests

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

Financial Instruments – Disclosures

In June 2009, the CICA issued revisions release no. 54, which includes, among others, several amendments to Section 3862, *Financial Instruments – Disclosures*. This Section has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosures. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009.

International Financial Reporting Standards (IFRS)

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

For the Company, conversion to IFRS will be required for financial statements for periods beginning on or after January 1, 2011. Comparative data will have to be restated so as to comply with IFRS. As a result, the Company has developed a plan to convert its financial statements to IFRS in four phases: Phase 1 – Preliminary Diagnosis, Planning and Definition of the Scope, Phase 2 – Detailed Evaluation, Phase 3 – Definition of the Solution and Phase 4 – Implementation.

The Company is currently in Phase 2 of its conversion plan, which covers employee training and detailed evaluation of potential impact. Accordingly the IFRS standards have been grouped by topic and distributed among 11 task forces comprising employees from every affected sector of the Company. The members of each task force are responsible for evaluating the impact of the differences between the Canadian and IFRS standards and for recommending accounting conventions to management. The main conclusions of four of these task forces were presented to the audit committee in August. At the next audit committee meeting, the results of four more task forces will be presented. The presentation dates for two of the task forces have not yet been determined, as the definitive standards have not yet been released. The last task force, which is studying the presentation of financial statements, expects to present its results in early 2010. Phase 3 is expected to begin at the beginning of the third quarter, and Phase 4 at the beginning of the fourth quarter. RONA expects to complete the conversion plan before the end of second quarter 2010. Changes in accounting policies are expected and are likely to have a notable impact on the Company's consolidated financial statements.

Significant accounting estimates

No major change has occurred since the publication of the Annual Management Discussion and Analysis for the year ended December 28, 2008.

Internal control over financial reporting

During the second quarter ended June 28, 2009, 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 impact 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 impact of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made.

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

The forward-looking statements in this MD&A reflect the Company’s expectations as at August 11, 2009, 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, 2009. The reader will find additional information concerning RONA, including the Company’s Annual Information Form, on the Company’s website at www.rona.ca or on the SEDAR website at www.sedar.com.



Claude Guévin, CA
Executive Vice-President
Chief Financial Officer



Robert Dutton
President
Chief Executive Officer

RONA inc.

Consolidated Earnings

For the thirteen and twenty-six-week periods ended June 28, 2009 and June 29, 2008

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

	Second Quarter		Year-to-date	
	2009	2008	2009	2008
	(Restated – Note 2)		(Restated – Note 2)	
Sales	\$ 1,369,907	\$ 1,473,254	\$ 2,215,917	\$ 2,384,788
Earnings before the following items (Note 5)	122,876	150,321	148,368	176,924
Interest on long-term debt	5,206	8,260	10,531	15,922
Interest on bank loans	530	719	1,086	977
Depreciation and amortization	26,633	27,178	51,523	50,499
	32,369	36,157	63,140	67,398
Earnings before income taxes and non-controlling interest	90,507	114,164	85,228	109,526
Income taxes	27,514	35,162	25,909	33,734
Earnings before non-controlling interest	62,993	79,002	59,319	75,792
Non-controlling interest	2,197	2,382	1,040	1,598
Net earnings and comprehensive income	\$ 60,796	\$ 76,620	\$ 58,279	\$ 74,194
Net earnings per share (Note 13)				
Basic	\$ 0.51	\$ 0.66	\$ 0.50	\$ 0.64
Diluted	\$ 0.51	\$ 0.66	\$ 0.49	\$ 0.64

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 28, 2009 and June 29, 2008

(Unaudited, in thousands of dollars)

	2009	2008
		(Restated – Note 2)
Consolidated Retained Earnings		
Balance, beginning of period, as previously reported	\$ 1,053,166	\$ 892,967
Change in accounting policy – Goodwill and intangible assets (Note 2)	(24,290)	(20,542)
Restated balance, beginning of period	1,028,876	872,425
Net earnings	58,279	74,194
	1,087,155	946,619
Expenses relating to the issue of common shares, net of income tax recovery of \$1,821	4,730	–
Balance, end of period	\$ 1,082,425	\$ 946,619
Consolidated Contributed Surplus		
Balance, beginning of period	\$ 12,563	\$ 11,045
Compensation cost relating to stock option plans	473	758
Balance, end of period	\$ 13,036	\$ 11,803

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 28, 2009 and June 29, 2008

(Unaudited, in thousands of dollars)

	Second Quarter		Year-to-date	
	2009	2008	2009	2008
	(Restated – Note 2)		(Restated – Note 2)	
Operating activities				
Net earnings	\$ 60,796	\$ 76,620	\$ 58,279	\$ 74,194
Non-cash items				
Depreciation and amortization	26,633	27,178	51,523	50,499
Derivative financial instruments	121	(473)	(1,121)	95
Future income taxes	(3,585)	(171)	4,172	(535)
Net gain on disposal of assets	(282)	(1,519)	(1,936)	(1,491)
Compensation cost relating to stock option plans	171	379	473	758
Non-controlling interest	2,197	2,382	1,040	1,598
Other items	536	624	1,071	1,393
	86,587	105,020	113,501	126,511
Changes in working capital items	98,022	173,543	3,027	25,075
Cash flows from operating activities	184,609	278,563	116,528	151,586
Investing activities				
Business acquisition (Note 7)	(3,214)	(1,758)	(3,214)	(3,886)
Advances to joint ventures and other advances	(588)	1,986	(1,007)	7,929
Other investments	–	(2,440)	(526)	(2,440)
Fixed assets	(50,044)	(47,844)	(90,987)	(89,979)
Other assets	(1,430)	(5,473)	(2,810)	(6,470)
Disposal of fixed assets	1,317	7,226	3,488	7,446
Disposal of investments	694	5,592	1,165	8,403
Cash flows from investing activities	(53,265)	(42,711)	(93,891)	(78,997)
Financing activities				
Bank loans and revolving credit	(149,707)	(204,798)	(36,042)	(52,075)
Other long-term debt	–	–	188	1,977
Repayment of other long-term debt and redemption of preferred shares	(3,753)	(9,284)	(5,957)	(12,302)
Issue of common shares	151,678	2,414	152,026	2,970
Expenses relating to the issue of common shares	(6,118)	–	(6,118)	–
Cash flows from financing activities	(7,900)	(211,668)	104,097	(59,430)
Net increase in cash and cash equivalents	123,444	24,184	126,734	13,159
Cash and cash equivalents (outstanding cheques), beginning of period	15,635	(8,159)	12,345	2,866
Cash and cash equivalents, end of period	\$ 139,079	\$ 16,025	\$ 139,079	\$ 16,025
Supplementary information				
Interest paid	\$ 1,112	\$ 3,525	\$ 13,320	\$ 18,649
Income taxes paid	\$ 7,356	\$ 27,911	\$ 21,160	\$ 51,794

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

RONA inc.
Consolidated Balance Sheets

June 28, 2009, June 29, 2008 and December 28, 2008
(In thousands of dollars)

	June 28, 2009	June 29, 2008	December 28, 2008
	(Unaudited)	(Restated - Note 2) (Unaudited)	(Restated - Note 2)
Assets			
Current assets			
Cash and cash equivalents	\$ 139,079	\$ 16,025	\$ 12,345
Accounts receivable	347,162	358,142	234,027
Income taxes receivable	5,898	23,207	6,475
Inventory (Note 4)	860,193	911,553	763,239
Prepaid expenses	33,461	33,778	11,202
Derivative financial instruments	63	25	1,089
Future income taxes	15,609	14,484	19,274
	<u>1,401,465</u>	<u>1,357,214</u>	<u>1,047,651</u>
Investments	9,236	9,270	10,186
Fixed assets	904,636	816,389	875,634
Fixed assets held for sale (Note 8)	45,741	41,294	34,870
Goodwill	456,246	457,845	454,889
Trademarks	3,622	3,971	3,797
Other assets	28,446	22,687	27,210
Future income taxes	26,580	23,378	24,681
	<u>\$ 2,875,972</u>	<u>\$ 2,732,048</u>	<u>\$ 2,478,918</u>
Liabilities			
Current liabilities			
Bank loans	\$ 9,676	\$ 13,388	\$ 8,468
Accounts payable and accrued liabilities	653,463	674,418	422,318
Derivative financial instruments	33	19	2,180
Future income taxes	5,053	3,430	4,461
Instalments on long-term debt	14,644	31,614	15,696
	<u>682,869</u>	<u>722,869</u>	<u>453,123</u>
Long-term debt	437,725	553,206	478,475
Other long-term liabilities	29,844	26,292	28,571
Future income taxes	21,299	19,038	21,304
Non-controlling interest	29,962	28,057	29,220
	<u>1,201,699</u>	<u>1,349,462</u>	<u>1,010,693</u>
Shareholders' equity			
Capital stock (Note 9)	578,812	424,164	426,786
Retained earnings	1,082,425	946,619	1,028,876
Contributed surplus	13,036	11,803	12,563
	<u>1,674,273</u>	<u>1,382,586</u>	<u>1,468,225</u>
	<u>\$ 2,875,972</u>	<u>\$ 2,732,048</u>	<u>\$ 2,478,918</u>

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

RONA inc.

Notes to Interim Consolidated Financial Statements

June 28, 2009 and June 29, 2008

(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 28, 2008, except for the change in accounting policy described in Note 2. The interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 28, 2008. The interim operating results do not necessarily reflect the results for the full fiscal year. Accordingly, the comparative balance sheet as at June 29, 2008 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

Goodwill and intangible assets

At the beginning of 2009 the Company retroactively adopted Section 3064 of the Canadian Institute of Chartered Accountants' (CICA) Handbook, *Goodwill and intangible assets*, which replaces Section 3062 of the same title. The section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets, including internally generated intangible assets. Pre-opening expenses for stores and distribution centres (previously included in Other assets), advertising costs, including those related to store openings and costs incurred for Olympic and Paralympic sponsorship (previously included in Prepaid expenses) no longer meet the requirements of the new section. The balances in these asset accounts as at December 31, 2007 – that is, at the beginning of first quarter 2008 – were restated and included in Retained Earnings and the results of operations of 2008 were also restated to conform to the 2009 presentation.

RONA inc.

Notes to Interim Consolidated Financial Statements

June 28, 2009 and June 29, 2008

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

2. Changes in accounting policies (continued)

Goodwill and intangible assets (continued)

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

	Second Quarter 2008			Year-to-date June 29, 2008		
	Previously reported	Adjustments	Restated	Previously reported	Adjustments	Restated
Consolidated Earnings						
Earnings before the following items	\$ 157,284	\$ (6,963)	\$ 150,321	\$ 190,685	\$ (13,761)	\$ 176,924
Depreciation and amortization	29,113	(1,935)	27,178	54,360	(3,861)	50,499
Income taxes	36,713	(1,551)	35,162	36,783	(3,049)	33,734
Non-controlling interest	2,360	22	2,382	1,509	89	1,598
Net earnings and comprehensive income	80,119	(3,499)	76,620	81,134	(6,940)	74,194
Net earnings per share – basic and diluted	0.69	(0.03)	0.66	0.70	(0.06)	0.64
Consolidated Cash Flows						
Net earnings	80,119	(3,499)	76,620	81,134	(6,940)	74,194
Depreciation and amortization	29,113	(1,935)	27,178	54,360	(3,861)	50,499
Future income taxes	23	(194)	(171)	101	(636)	(535)
Non-controlling interest	2,360	22	2,382	1,509	89	1,598
Changes in working capital items	164,534	9,009	173,543	11,429	13,646	25,075
Other assets	(2,070)	(3,403)	(5,473)	(4,172)	(2,298)	(6,470)
Consolidated Balance Sheets						
Assets						
Income taxes receivable				20,796	2,411	23,207
Prepaid expenses				65,796	(32,018)	33,778
Future income taxes – current				10,351	4,133	14,484
Other assets				28,485	(5,798)	22,687
Liabilities						
Future income taxes – current				3,716	(286)	3,430
Future income taxes – long-term				22,631	(3,593)	19,038
Non-controlling interest				27,968	89	28,057
Retained Earnings – beginning of year				892,967	(20,542)	872,425
As at December 28, 2008						
				Previously reported	Adjustments	Restated
Consolidated Balance Sheets						
Assets						
Income taxes receivable				\$ 6,046	\$ 429	\$ 6,475
Prepaid expenses				33,104	(21,902)	11,202
Future income taxes – current				13,800	5,474	19,274
Other assets				38,466	(11,256)	27,210
Liabilities						
Future income taxes – current				4,854	(393)	4,461
Future income taxes – long-term				23,998	(2,694)	21,304
Non-controlling interest				29,098	122	29,220
Retained Earnings – beginning of year				892,967	(20,542)	872,425

RONA inc.

Notes to Interim Consolidated Financial Statements

June 28, 2009 and June 29, 2008

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

2. Changes in accounting policies (continued)

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

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

3. Effect of new accounting standards not yet implemented

Business combinations

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

Consolidated financial statements and non-controlling interests

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

Financial instruments – disclosures

In June 2009, the CICA issued revisions release no. 54, which includes, among others, several amendments to Section 3862, *Financial instruments – disclosures*. This Section has been amended to include additional disclosure requirements about fair value measurements of financial instruments and to enhance liquidity risk disclosures. The amendments apply to annual financial statements relating to fiscal years ending after September 30, 2009.

International financial reporting standards (IFRS)

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

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

RONA inc.

Notes to Interim Consolidated Financial Statements

June 28, 2009 and June 29, 2008

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

4. Inventory

For the thirteen and twenty-six-week periods ended June 28, 2009, amounts of \$997,356 and \$1,604,354 of inventory were expensed in the consolidated results (\$1,075,523 and \$1,732,070 as at June 29, 2008). These amounts include an inventory write-down charge of \$12,034 and \$18,897 (\$16,963 and \$24,753 as at June 29, 2008).

5. Store closing costs

Exit and disposal costs and write-down of assets

In April 2008, management approved a detailed plan to close four of its stores included in the corporate and franchised stores segment. Three of these stores were closed in 2008 and one was closed in the second quarter of 2009. During the thirteen and twenty-six-week periods ended June 28, 2009, the Company recognized the following costs:

	Second Quarter		Year-to-date	
	2009	2008	2009	2008
Lease obligations	\$ 7,955	\$ -	\$ 7,955	\$ -
Inventory write-down	-	1,957	525	1,957
Termination benefits	-	226	-	226
Total recorded in earnings before the following items	7,955	2,183	8,480	2,183
Fixed assets write-down	-	2,303	-	2,303
Total costs	\$ 7,955	\$ 4,486	\$ 8,480	\$ 4,486

The liability for exit and disposal costs and write-down of assets is as follows:

	2009	2008
Balance, beginning of period	\$ 3,575	\$ -
Costs recognized:		
Lease obligations	7,955	-
Termination benefits	-	226
Less: cash payments	(1,334)	(51)
Balance, end of period	\$ 10,196	\$ 175

Other closing costs

During the thirteen and twenty-six-week periods ended June 28, 2009, in addition to the exit and disposal costs and write-down of assets, the Company recorded operating costs, including interest and depreciation, for the liquidation of the assets of these stores in the amounts of \$204 and \$1,230 (\$2,411 and \$2,411 as at June 29, 2008).

RONA inc.
Notes to Interim Consolidated Financial Statements

June 28, 2009 and June 29, 2008

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

6. Vendor rebates

In accordance with EIC-144 *Accounting by a customer (including a reseller) for certain consideration received from a vendor*, the Company must disclose the amount recognized for which the full requirements for vendor rebate entitlement have not yet been met. For the twenty-six-week period ended June 28, 2009, the Company recognized an amount of \$6,768 (\$6,556 as at June 29, 2008) which was estimated based on the attainment of specified requirements to receive the rebates.

7. Business acquisition

During the twenty-six-week period ended June 28, 2009, the Company acquired one company (one company in 2008), operating in the corporate and franchised stores segment, by way of an asset purchase. Taking direct acquisition costs into account, this acquisition was for a total consideration of \$3,821 (\$5,432 in 2008). The Company financed this acquisition from its existing credit facilities. The results of operations of this company are consolidated from its date of acquisition.

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

	2009	2008
Accounts receivable	\$ 1,145	\$ 2,031
Inventory	1,224	1,890
Other current assets	-	66
Fixed assets	105	650
Goodwill	1,357	2,963
Current liabilities	(10)	(2,168)
	<hr/> 3,821	5,432
Less: Accrued direct acquisition costs	-	(46)
Balance of purchase price	(607)	(1,500)
Cash consideration paid	<hr/> \$ 3,214	\$ 3,886

The Company expects that an amount of \$944 (\$1,875 in 2008) of goodwill will be deductible for tax purposes.

8. 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. However, given the deterioration of the real estate market in the last months, certain assets have been held for sale for over a year and this, despite the fact that the Company has taken the necessary measures to address these new market conditions. The Company intends to maintain ongoing efforts to dispose of these assets.

During the first quarter of 2009, the Company disposed of two parcels of land and buildings which had been held for sale and recorded a gain on disposition of \$1,521.

RONA inc.

Notes to Interim Consolidated Financial Statements

June 28, 2009 and June 29, 2008

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

9. Capital stock

Issued and fully paid:

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

	June 28, 2009	
	Number of shares	Amount
Balance, beginning of period	115,819,699	\$ 423,477
Issuance in exchange for common share subscription deposits	328,692	3,744
Issuance under stock option plans	10,000	35
Issuance in exchange for cash ^(a)	11,643,782	150,191
Balance before elimination of reciprocal shareholdings	127,802,173	577,447
Elimination of reciprocal shareholdings	(80,251)	(524)
Balance, end of period	127,721,922	576,923
Deposits on common share subscriptions, net of eliminations of joint ventures ^(b)		1,889
		\$ 578,812
	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 ^(b)		1,736
		\$ 424,164
	December 28, 2008	
	Number of shares	Amount
Balance, beginning of year	115,412,766	\$ 418,246
Issuance in exchange for common share subscription deposits	197,854	3,349
Issuance under stock option plans	89,000	309
Issuance in exchange for cash	120,079	1,573
Balance before elimination of reciprocal shareholdings	115,819,699	423,477
Elimination of reciprocal shareholdings	(72,396)	(435)
Balance, end of year	115,747,303	423,042
Deposits on common share subscriptions, net of eliminations of joint ventures ^(b)		3,744
		\$ 426,786

(a) On June 2, 2009, the Company issued 11,630,000 common shares at a price of \$12.90 per share for gross proceeds of \$150,027.

(b) Deposits on common share subscriptions represent amounts received during the period from affiliated and franchised merchants in accordance with commercial agreements. These deposits are exchanged for common shares on an annual basis. If the subscription deposits had been exchanged for common shares as at June 28, 2009, the number of outstanding common shares would have increased by 149,021.

RONA inc.

Notes to Interim Consolidated Financial Statements

June 28, 2009 and June 29, 2008

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

9. 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 28, 2009 the 2,920,000 options granted have an exercise price of \$3.47 and of this number, 1,548,500 options (1,454,500 options as at June 29, 2008) were exercised.

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

No compensation cost was expensed with respect to this plan for the thirteen and twenty-six-week periods ended June 28, 2009 and June 29, 2008.

Stock option plan of October 24, 2002

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

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

RONA inc.

Notes to Interim Consolidated Financial Statements

June 28, 2009 and June 29, 2008

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

9. Capital stock (continued)

As at June 28, 2009, the 2,475,752 options (1,944,052 options as at June 29, 2008) granted have exercise prices ranging from \$10.62 to \$26.87 (\$14.18 to \$26.87 as at June 29, 2008) and of this number, 85,100 options (85,100 options as at June 29, 2008) have been exercised and 632,575 options (193,475 options as at June 29, 2008) 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:

	<u>June 28, 2009</u>	<u>June 29, 2008</u>
Weighted average fair value per option granted	\$4.11	\$4.42
Risk-free interest rate	1.98 %	3.25 %
Expected volatility in stock price	35 %	26 %
Expected annual dividend	0 %	0 %
Expected life (years)	6	6

Compensation cost expensed with respect to this plan was \$171 and \$473 for the thirteen and twenty-six-week periods ended June 28, 2009 (\$379 and \$758 as at June 29, 2008).

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

June 28, 2009 and June 29, 2008

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

9. 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 28, 2009	
	Options	Weighted average exercise price
Balance, beginning of period	2,981,002	\$ 11.46
Granted	516,700	10.62
Exercised	(10,000)	3.47
Forfeited	(358,125)	20.02
Balance, end of period	3,129,577	10.37
Options exercisable, end of period	2,024,194	\$ 7.61

	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

	December 28, 2008	
	Options	Weighted average exercise price
Balance, beginning of year	2,922,552	\$ 11.31
Granted	258,200	13.99
Exercised	(89,000)	3.47
Forfeited	(110,750)	20.07
Balance, end of year	2,981,002	11.46
Options exercisable, end of year	1,965,569	\$ 7.22

RONA inc.
Notes to Interim Consolidated Financial Statements

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

9. Capital stock (continued)

The following table summarizes information relating to stock options outstanding as at June 28, 2009:

Exercise price	Expiration date	Options outstanding	Options exercisable
\$ 3.47	December 31, 2012	1,371,500	1,371,500
\$ 10.62	March 11, 2019	516,700	–
\$ 10.86	December 9, 2018	15,000	–
\$ 14.18	March 1, 2018	206,450	52,325
\$ 14.29	December 16, 2013	420,850	420,850
\$ 20.27	December 22, 2014	98,000	98,000
\$ 21.21	February 24, 2016	314,500	–
\$ 21.78	September 1, 2016	17,576	4,394
\$ 23.58	March 8, 2017	151,425	77,125
\$ 26.87	February 24, 2016	17,576	–
		<hr/>	<hr/>
		3,129,577	2,024,194

10. Guarantees

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

The Company guarantees mortgages for an amount of \$1,585. 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 \$5,768.

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 \$69,068. 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.

RONA inc.

Notes to Interim Consolidated Financial Statements

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

11. Employee future benefits

As at June 28, 2009, the Company has nine 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	
	2009	2008	2009	2008
Cost recognized for defined contribution pension plans	\$ 2,436	\$ 2,135	\$ 4,808	\$ 4,311
Cost recognized for defined benefit pension plans	403	341	805	538
Net employee future benefit costs	\$ 2,839	\$ 2,476	\$ 5,613	\$ 4,849

12. 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

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

12. Segmented information (continued)

	Second Quarter		Year-to-date	
	2009	2008 (Restated)	2009	2008 (Restated)
Segment sales				
Corporate and franchised stores	\$ 1,040,093	\$ 1,130,019	\$ 1,657,185	\$ 1,813,048
Distribution	693,709	716,982	1,170,083	1,208,383
Total	1,733,802	1,847,001	2,827,268	3,021,431
Intersegment sales and royalties				
Corporate and franchised stores	-	-	-	-
Distribution	(363,895)	(373,747)	(611,351)	(636,643)
Total	(363,895)	(373,747)	(611,351)	(636,643)
Sales				
Corporate and franchised stores	1,040,093	1,130,019	1,657,185	1,813,048
Distribution	329,814	343,235	558,732	571,740
Total	1,369,907	1,473,254	2,215,917	2,384,788
Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest				
Corporate and franchised stores	126,823	152,227	164,825	193,939
Distribution	31,631	32,574	53,048	51,614
Total	158,454	184,801	217,873	245,553
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest				
Corporate and franchised stores	96,846	123,380	106,373	136,667
Distribution	26,030	26,941	41,995	40,257
Total	122,876	150,321	148,368	176,924
Acquisition of fixed assets				
Corporate and franchised stores	36,351	41,424	67,850	79,922
Distribution	13,798	6,436	23,242	10,707
Total	50,149	47,860	91,092	90,629
Goodwill				
Corporate and franchised stores	1,357	298	1,357	2,963
Distribution	-	-	-	-
Total	\$ 1,357	\$ 298	1,357	2,963
Total assets				
Corporate and franchised stores			2,230,632	2,256,993
Distribution			645,340	475,055
Total			\$ 2,875,972	\$ 2,732,048

RONA inc.

Notes to Interim Consolidated Financial Statements

June 28, 2009 and June 29, 2008

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

13. Net earnings per share

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

	Second Quarter		Year-to-date	
	2009	2008	2009	2008
		(Restated – Note 2)		(Restated – Note 2)
Net earnings	\$ 60,796	\$ 76,620	\$ 58,279	\$ 74,194
Number of shares (in thousands)				
Weighted average number of shares used to compute basic net earnings per share	119,408.7	115,614.8	117,742.4	115,579.7
Effect of dilutive stock options ^(a)	1,009.5	1,078.2	1,009.5	1,113.0
Weighted average number of shares used to compute diluted net earnings per share	120,418.2	116,693.0	118,751.9	116,692.7
Net earnings per share				
Basic	\$ 0.51	\$ 0.66	\$ 0.50	\$ 0.64
Diluted	\$ 0.51	\$ 0.66	\$ 0.49	\$ 0.64

(a) As at June 28, 2009, 1,743,077 common share stock options (1,232,927 options as at June 29, 2008) were excluded from the calculation of diluted net earnings per share since these options have an antidilutive effect.

14. Subsequent event

On June 30, 2009, the Company issued 1,744,500 common shares at a price of \$12.90 per share following the exercise of the over-allotment option in accordance with the terms of a firm underwriting on May 12, 2009 of 11,630,000 common shares. Including the gross proceeds from the firm underwriting of \$150,027 received on June 2, 2009 and the exercise of the over-allotment option, the aggregate gross proceeds to the Company amounted to \$172,531 for a total of 13,374,500 common shares.

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of nearly 700 corporate, franchise and affiliate stores of various sizes and formats. With over 29,000 employees working under its family of banners in every region of Canada and more than 15 million square feet of retail space, the RONA store network generates over \$6 billion in annual retail sales. Visit www.rona.ca.

