Q2-2010

READY
for the New World

Consolidated interim report
For the quarter ended June 27, 2010

RONA

RONA ACHIEVES FURTHER GROWTH AND MAKES STRATEGIC ADVANCES IN THE SECOND QUARTER

RONA inc. (TSX: RON), the largest Canadian distributor and retailer of hardware, renovation and gardening products, today reported its financial results for the 13-week and 26-week periods ended June 27, 2010 (second quarter and first half of 2010). All figures in this release are in Canadian dollars.

FINANCIAL HIGHLIGHTS

Compared to the second quarter of 2009:

- Total sales increased 2.1%, same-store sales up 0.9%
- EBITDA was up 9.5%, excluding 2009 unusual items up 2.6%
- EBITDA margin was up 65 basis points, excluding 2009 unusual items up 5 basis points
- Net earnings up 11.6%, excluding 2009 unusual items up 2.0%
- Earnings per share up $0.01 or 2.0% to $0.52 (diluted), excluding 2009 unusual items down $0.03 or 5.5% but up $0.01 or 1.8% when considering dilution from June 2009 equity issue

OPERATIONAL HIGHLIGHTS

- Acquisition of Pierceys chain of stores in Halifax to consolidate RONA's positioning in the region
- Six independent dealers have joined RONA since the beginning of the year. In total, they generate over $45 million in annual retail sales and have added 65,000 square feet of retail space to the RONA network
- Existing RONA affiliated dealers undertook 45 development projects in the first half of 2010, for a total of $23 million invested in the network, including new stores and expansions representing close to 94,000 square feet of retail space
- A new 73,000 square-foot store was opened in Saskatoon, Saskatchewan and a 35,000 square-foot store was renovated and re-opened in St. John's, Newfoundland and Labrador in the second quarter
- New customer program RONAdvantages rapidly gaining momentum: 14 weeks after the launch of this new program, the number of RONA private label cards issued already surpassed the record number of cards issued last year for the whole year under the previous program
- RONA renews CFL (Canadian Football League) partnership until 2012

"The Company was able to achieve growth across-the-board in sales, EBITDA and net earnings, notwithstanding what appears to have been a slowdown in economic recovery, particularly in the housing market," stated Robert Dutton, President and CEO of RONA. "In addition, we were faced with a shift in buying patterns as some purchases that are typically made in the second quarter of the year were advanced to the first quarter by consumers because of favourable weather conditions and renovation tax credit incentives."

"We also made good progress on the strategic front by acquiring the Pierceys chain of stores, which will further strengthen the RONA brand in the Atlantic region, and by signing up Moffatt & Powell Limited to increase our presence in Southwest Ontario," said Mr. Dutton. "We are pleased with our performance in the first half of the year and, while we are cautious about the market outlook for the second half of the year, we remain confident in our ability to successfully implement our plans for growth going forward."

FINANCIAL RESULTS

CONSOLIDATED RESULTS FOR THE THREE-MONTH PERIOD ENDED JUNE 27, 2010

The results discussed and analyzed in this section are for the three-month period ended June 27, 2010 and, when compared, are compared to the results for the three-month period ended June 28, 2009, unless otherwise indicated.

Consolidated sales were $1,398.2 million, up $28.3 million or 2.1%, including a 0.9% increase for same-store sales. The increase was the result of a 2.6% increase in Corporate and Franchised Stores segment sales and a 0.2% increase in Distribution segment sales. Corporate and Franchised Stores sales were strong in the early part of the quarter as was the pace of economic recovery and housing market activity. However, as the quarter progressed, sales were negatively affected by some poor weather in the month of May and June, particularly in Alberta and Quebec, a decline in consumer confidence, a slowing down of the housing market across Canada, purchases advanced to the first quarter because of favourable weather and renovation tax credit incentives, and delays in imports from China. In the retail segment, lumber and HVAC (heating, ventilation and air conditioning) categories were strong in the quarter, but the seasonal and horticultural categories were weak due to unfavourable weather and delays in imports from China. As in the first quarter, the Commercial and Professional Market division experienced strong sales growth in the plumbing, HVAC, lumber and building material segments.

The gross margin was 27.45%, up 25 basis points. This increase in gross margin stems from optimized management of product categories, reduction of in-store losses, and the continued positive impact of numerous recurring efficiency and productivity initiatives introduced under the PEP program in Phase 1 of the 2008–2011 strategic plan.

The adjusted gross margin was up by 45 basis points, to 30.26%. In addition to the gross margin improvements, the adjusted gross margin was boosted by the resulting supportive effect on network growth of better terms and conditions from our suppliers.

EBITDA amounted to $134.5 million, an increase of $11.6 million or 9.5%, and the EBITDA margin increased 65 basis points to 9.62%. Excluding unusual items, EBITDA was up $3.4 million, or 2.6%, and the EBITDA margin was up 5 basis points. Charges for unusual items were incurred only in the second quarter of 2009 and related to the cost of store closures. The growth in EBITDA and EBITDA margin were the combined result of increased sales, gross margin improvements, and tight controls on selling, general and administrative ("SG&A") expenses. These improvements were offset partially by higher shipping costs, SG&A relating to the opening of new stores as well as costs relating to maintaining strong service in-store while sales momentum was weakening during the quarter.

Interest expenses on long-term debt and bank loans were reduced by $0.3 million, or 5.6%. This decline is attributable to a share issue in June 2009 and a more disciplined management of the balance sheet and capital investments, resulting in lower net debt levels.

Amortization and depreciation costs totalled $29.2 million, an increase of $2.6 million or 9.6%. This increase is attributable to an impairment charge to reduce the carrying value of a building, the opening of new corporate stores, the renovation program for existing corporate stores and ongoing improvements to information systems.

Net earnings were up $7.0 million to $67.8 million, and earnings per share (diluted) were up $0.01 to $0.52. Excluding unusual items recorded in 2009, net earnings were up $1.4 million, or 2.0%, and earnings per share (diluted) were down $0.03, or 5.5%. Difference between net earnings growth and earnings per share decrease is explained by the differences in average shares outstanding during the respective periods. Excluding this effect, earnings per share (diluted) were up $0.01 or 1.8% to $0.58. Net earnings were up due to the performance of the Corporate and Franchised Stores segment.

CONSOLIDATED RESULTS FOR THE SIX-MONTH PERIOD ENDED JUNE 27, 2010

The results discussed and analyzed in this section are for the six-month period ended June 27, 2010 and, when compared, are compared to the results for the six-month period ended June 28, 2009, unless otherwise indicated.

Consolidated sales were $2,349.6 million, up $133.7 million or 6.0%. Sales growth is attributable to new store openings and same-store sales growth of 4.6% in the first half of the year. Four stores were opened in the first half of the year, two in Ontario, one in Alberta and one in Saskatchewan. The strong growth in same-store sales during the early part of 2010 to a large extent mirrors the recovery in the Canadian economy, which started the year at a strong pace, but more recently appears to be slowing down, particularly in the area of housing activity. This was reflected in the quarterly growth rates of 12.5% for the first quarter and 2.1% for the second quarter. Atypical weather patterns have also had some impact on sales. Our Commercial and Professional Market division recorded strong sales growth in the first half of the year for all product lines, especially in the plumbing and HVAC segments.

The gross margin improved by 19 basis points, to 27.79%. This increase was driven primarily by a 25 basis point improvement in second quarter results, tempered somewhat by a smaller improvement of 4 basis points in the first quarter of 2010. The more significant margin improvement of the second quarter reflects, to a certain degree, the time it often takes to realize the full impact of efficiency and productivity initiatives, as well as the impact of higher volumes in the second quarter.

The adjusted gross margin rose by 40 basis points, to 30.93%. In addition to the gross margin improvements, the adjusted gross margin was boosted by the resulting supportive effect on network growth of better terms and conditions from our suppliers.

EBITDA was $169.8 million, up $21.4 million, or 14.4%, and the EBITDA margin increased to 7.23%, a rise of 53 basis points. Excluding unusual items recorded in 2009, EBITDA was up $13.2 million, or 8.4%, and the EBITDA margin was up 16 basis points. This increase is the result of 38.4% growth in the first quarter of 2010, tempered somewhat by slower growth in the second quarter of 2.6%. In addition to reflecting improved gross margins, this EBITDA increase also reflects some success in controlling the growth of SG&A costs, in spite of additional costs associated with new store openings.

Interest expenses on long-term debt and bank loans were reduced by $0.8 million, or 6.7%. This decline is attributable to a share issue in June 2009 and a continued effort over the first two quarters of the year to maintain a more disciplined management of the balance sheet and capital investments, resulting in lower debt levels.

Amortization and depreciation totalled $55.3 million, an increase of $3.8 million or 7.4%. This increase is attributable to an impairment charge to reduce the carrying value of a building, the opening of new corporate stores, the renovation program for existing corporate stores, ongoing improvements to information systems.

Net earnings were up $12.6 million, or 21.6%, to $70.9 million, and earnings per share (diluted) were up $0.05, or 10.2%, to $0.54. Excluding unusual items, net earnings were up $6.9 million, or 10.7%, and earnings per share (diluted) were $0.54, the same as in 2009. Difference between net earnings growth and earnings per share growth is explained by the differences in average shares outstanding during the respective periods. The increase in net earnings is due to the strong performance of the Corporate and Franchised Stores segment over the first half of the year.

CASH FLOWS AND FINANCIAL POSITION

Operations generated $104.0 million of cash flow in the second quarter of 2010, compared to $87.7 million in the second quarter of 2009. Net of changes in working capital, operations generated $78.5 million of cash flow compared to $184.6 million generated in the second quarter of 2009. For the six-month period ended June 27, 2010, operations generated $136.6 million, compared to $114.1 million in 2009. Net of changes in working capital, operations used $5.3 million, compared to having generated $116.5 million in 2009. These decreases are mainly attributable to a $82 million increase in inventory reflecting the opening of new stores, acquisitions, new HVAC lines of products introduced in our Commercial and Professional Market division as well as new products introduced at our Calgary Distribution Center to support our growth in this part of the country. The decreases are also attributable to an increase in accounts receivable coming from a higher proportion of lumber and building material sales to the commercial and professional clientele. In spite of the increase in overall inventory level, inventory turns continued to increase.

RONA's balance sheet was strengthened over the past year. On June 27, 2010, the ratio of total net debt to capital was 13.8%, compared to 16.2% as at June 28, 2009. The ratio of equity to assets was 61.5% at the end of the second quarter of 2010, compared to 58.2% as at June 28, 2009.

UPDATE ON THE COMPANY'S STRATEGIC ORIENTATION

On February 27, 2008, RONA released its strategic plan for 2008-2011. The plan was conceived to consist of two phases. Phase 1 of the plan focused on productivity, efficiency, and profitability (the "PEP program"), over the 2008-2009 period. On January 25, 2010, RONA unveiled Phase 2 of its strategic plan (the "New World program"), which places renewed emphasis on growth over the 2010-2011 period.

RONA's 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. The information below presents the Company's main achievements in the second quarter of 2010.

1. Customer growth:
    - RONAdvantages was improved and made into a permanent program that is now one of the most advantageous customer programs in the industry in Canada. RONAdvantages is a program especially designed to reward our most loyal customers. Customers can earn up to 5% cash back annually in RONA gift cards, get up to 2X AIR MILES® reward miles upon presentation of the new RONA private label credit card and the AIR MILES Collector card on every transaction, can choose from affordable financing options, receive exclusive monthly offers, and all this for $0 annual fee. To take advantage of RONAdvantages a customer has to use the new RONA private label credit card. This new program is rapidly gaining momentum. In fact, only 14 weeks after the launch of the program, the number of new cards issued already surpassed the record number of cards issued for the whole year last year under the previous program, which had increased by more than 30% over 2008.
    - The Canadian Football League (CFL) promotional partnership is an important element of the Company's efforts to increase consumer awareness. This arrangement, which has been very successful since its launch in 2001, has now been extended to 2012.
    - Second phase of "Doing it right" advertising campaign was launched. The new messages put consumers front and centre, paying tribute to people tackling construction, renovation and interior decoration projects using sound advice and a great selection of products, especially RONA's eco-responsible products. These messages add renewed momentum to the nationwide "Doing it right" campaign launched in spring 2009. Playing on the Company's new signature, the campaign states RONA's position as the country's hardware-renovation leader and emphasizes its commitment to sustainable development.
    - Signage and facade of Cashway and Lansing stores in Ontario are being changed to RONA as planned in order to enhance RONA's image in Ontario.
    - RONA corporate stores in Simcoe and North York, Ontario, were renovated in the quarter with more renovation projects planned for the second half of the year in Ontario.
    - Our franchise dealer from Châteauguay, Quebec, completed a major remerchandising of its store in the second quarter, particularly in the electrical, hardware, tools and seasonal products departments. Facade of the store was also updated.
    - Penetration of RONA's private-brand and controlled-label products reached over 21% in the first half of 2010 up from 19% at the beginning of the year.

2. Construction of new stores:
   - A new 73,000 square-foot proximity store was opened under the RONA banner in Saskatoon, Saskatchewan, replacing an older 35,000 square-foot store. It represents a $22 million investment.
   - A 35,000 square-foot proximity store in St. John's, Newfoundland and Labrador was renovated and re-opened at a cost of $2.8 million.
   - Following the quarter, plans were announced to build another RONA proximity store in St. John's, Newfoundland and Labrador. This is expected to be a $20 million investment for a 68,000 square-foot store.
   - Our franchise dealer from St-Eustache, Quebec, expanded to become a RONA big-box store, investing $6 million in the process. The expansion added 50,000 square feet to the existing store, for a total of 125,000 square feet. It now offers the full line of services provided by the RONA L'entrepôt concept.
   - Our corporate RONA Le Régional store located in St-Luc, Quebec is also undergoing expansion plans to become a RONA L'entrepôt big-box store.

3. Development of the affiliated dealer network:
   - 45 expansion/renovation/remerchandising projects were completed by RONA dealers since the beginning of the year, most of them being done in the second quarter. These projects represent investments of $23 million and the addition of 94,000 square feet to RONA's network of stores.
   - In the first half of 2010, five independent dealers have joined RONA's fold: four in Ontario - Boyer Fence & Deck (Kitchener), Colony Ratcliff (Gormley), Davies Hardware (Grand Bend) and Murdoch (Durham), and one in British Columbia. RONA employee Al Tsuchiya and his partner Gary Kandborg chose RONA for their new store in Port Coquitlam (BC). These new dealers represent more than $15 million in total retail sales and more than 40,000 square feet of retail space added to the RONA network.
   - Following the quarter, independent dealer-owner Moffatt & Powell Limited was signed up. Their five stores are located in London, Mitchell, Strathroy, Tillsonburg, and Watford, Ontario. They range in size from 2,500 to 7,500 square feet, with important lumberyards, and represent, in total, over $30 million in annual retail sales. Moffatt & Powell is the first member of the Independent Lumber Dealers Co-Operative (ILDC) to join the RONA network. This new dealer has promising plans to consolidate its region under the leadership of a young entrepreneur succeeding her father's business.
   - The all-new RONA Colour Boutique concept, which was presented to RONA dealer-owners last November, made its first appearance in the network. The concept offers customers a selection of large-size colour swatches, with 250 colours specially designed for RONA. The colour system has a database of thousands of shades and can accurately reproduce any colour from a sample.

4. Acquisitions:
   - RONA significantly increased its presence in the Atlantic Provinces with the acquisition of Pierceys, which translates to an additional 185,000 square feet in retail space and large lumberyards for the region, now totalling 575,000 square feet. Pierceys operates five hardware stores ranging in size from 17,000 to 69,000 square feet, major lumberyards and one of the biggest fleets of construction materials and hardware delivery trucks in Nova Scotia. Their stores are strategically located around the Halifax region, where RONA has been operating a big-box store since April 2008. RONA now has 31 stores in the Atlantic Provinces – 12 in Nova Scotia, 10 in Newfoundland and Labrador, and 9 in New Brunswick.

OUTLOOK

While an economic recovery appears to be underway, the pace of recovery seen in the first part of the year does not appear to be sustainable. In particular, housing activity, such as sales, new listings and starts, slowed down in the latter part of the second quarter.

The Bank of Canada sees economic activity in Canada unfolding largely as expected. However, it now expects the economic recovery in Canada to be more gradual than it had projected in its April *Monetary Policy Report*, with growth of 3.5% in 2010, 2.9% in 2011, and 2.2% in 2012. Their previous forecast was for 3.7% in 2010, before slowing to 3.1% in 2011 and 1.9% in 2012. The Bank now expects the economy to return to full capacity at the end of 2011, two quarters later than had been anticipated in April.

In terms of housing activity, both the Canadian Real Estate Association (“CREA”) and Canada Mortgage and Housing Corporation (“CMHC”), along with the Bank of Canada, are expecting an easing of activity in the second half of 2010. So economic growth continues to be anticipated, but at a slower rate. This continues to be generally in line with the economic background the Company was anticipating when it unveiled its New World program in January, Phase 2 of RONA’s 2008-2011 strategic plan.

Under the New World program, RONA’s growth initiatives are grouped into four vectors. The first vector is customer growth – the term RONA now uses to designate organic growth or same-store growth. New store construction, development of the affiliated dealer network, and strategic acquisitions are three vectors which are focused on growth through the development of the network.

Customer growth will be stimulated by numerous initiatives to improve the customer experience – innovative store concepts, new product categories, new private brand and controlled-label products, new tools to improve customer loyalty, and new training programs for store employees. The Company’s new succession planning program will also help RONA attract next-generation dealer-owners and continue to be the company that offers independent dealer-owners in Canada the best development support.

One objective of the New World program is to increase RONA’s market share in Canada from the current 17.5% to 20%. The main financial objectives of the New World program are:

- Increase the EBITDA margin by 20 to 30 basis points per year.
- Increase earnings per share by an average of 10% to 15% over the period.
- Increase the return on capital by 75 to 100 basis points over the period.
- Maintain an investment grade credit profile.

Achievement of these objectives is based on the following assumptions:

- Same-store sales will increase by 2% to 2.5% on average over the period.
- The penetration rate for private brand and controlled-label products will increase from 19% to 24%.
- Retail sales in the affiliate network will grow by $100 million to $150 million per year.
- Sales of about $80 million per year will be generated by new store construction and relocation or expansion of existing stores.
- There will be further strategic acquisitions.

Looking forward, Management believes that the programs they are implementing, and those planned, should position RONA well to exploit current market conditions and move quickly to take advantage of the business opportunities that it sees in its sector, given the Company’s solid balance sheet and extensive financial flexibility.

The acquisition of Pierceys this quarter positions the Company well for growth in the Atlantic Provinces, as it not only substantially increases its retail space in the region, but also gives RONA a significant presence in one of the most important parts of the region, Halifax. The signing up of Moffatt & Powell Limited will enlarge the Company’s footprint in the Southwestern Ontario region, an area that presents great potential for growth. While the company’s performance in the first half of the year has been good, Management is aware that market conditions may not be as strong in the second half of the year. On top of the many development projects in the pipeline, RONA will continue to offer strong service, appealing merchandising and innovative marketing in order to continue to increase its market share independently of the market environment.

Notwithstanding current expectations for the economy, in particular, the housing market, Management believes that the financial assumptions and objectives outlined above are still achievable over the two-year period covered by the plan and do not warrant revision at this moment.

ADDITIONAL INFORMATION

The *Management's Discussion and Analysis (MD&A)* and unaudited financial statements for the second quarter of 2010 can be found in the "Investor Relations" section of the Company's website at www.rona.ca and on the SEDAR website at www.sedar.com. The Company's Annual Report, along with other information about RONA, including its *Annual Information Form*, can also be found on the RONA and SEDAR websites.

NON-GAAP PERFORMANCE MEASURES

In this *Press Release*, as in our internal management, we use the concept of "earnings before interest, taxes, depreciation, amortization and non-controlling interest" (EBITDA). 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's management to analyze the profitability of its network, including all vendor rebates. Given that these measures are not standardized, EBITDA and adjusted gross margin cannot be compared from one company to the next. Still, we establish them in the same way for each of the segments identified, and, unless expressly mentioned, our method does not change over time. EBITDA and adjusted gross margin must not be considered separately or as a substitute for other performance measures calculated according to GAAP, but rather as additional information.

FORWARD-LOOKING STATEMENTS

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

For more information on the risks, uncertainties and assumptions that would cause the Company's actual results to differ from current expectations, please also refer to the Company's public filings available at www.sedar.com 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 *Press Release* reflect the Company's expectations as at August 11, 2010, 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 close to 30,000 employees working under its family of banners in every region of Canada and more than 16 million square feet of retail space, the RONA store network generates over $6 billion in annual retail sales. Visit www.rona.ca.

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RONA inc. ("RONA," "we" or the "Company") is Canada's leading retailer and distributor of home improvement, hardware and gardening products. The Company operates or serves a network of nearly 700 corporate, franchise and affiliate stores, as well as eleven 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 with the Canadian Securities Administrators for the 13-week and 26-week periods ended June 27, 2010. These statements can be viewed online at www.sedar.com or on RONA's website at www.rona.ca. This *Management's Discussion and Analysis ("MD&A")* should be read in conjunction with the Company's financial statements and related notes.

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   - The all-new RONA Colour Boutique concept, which was presented to RONA dealer-owners last November, made its first appearance in the network. The concept offers customers a selection of large-size colour swatches, with 250 colours specially designed for RONA. The colour system has a database of thousands of shades and can accurately reproduce any colour from a sample.

4. Acquisitions:
   - RONA significantly increased its presence in the Atlantic Provinces with the acquisition of Pierceys, which translates to an additional 185,000 square feet in retail space and large lumberyards for the region, now totalling 575,000 square feet. Pierceys operates five hardware stores ranging in size from 17,000 to 69,000 square feet, major lumberyards and one of the biggest fleets of construction materials and hardware delivery trucks in Nova Scotia. Their stores are strategically located around the Halifax region, where RONA has been operating a big-box store since April 2008. RONA now has 31 stores in the Atlantic Provinces – 12 in Nova Scotia, 10 in Newfoundland and Labrador, and 9 in New Brunswick.

ANALYSIS OF CONSOLIDATED RESULTS FOR THE THREE-MONTH PERIOD ENDED JUNE 27, 2010

The results discussed and analyzed in this section are for the three-month period ended June 27, 2010 and, when compared, are compared to the results for the three-month period ended June 28, 2009, unless otherwise indicated.

Economic conditions

In a July 20, 2010 press release about its overnight lending rate, the Bank of Canada (the "Bank") said: "Economic activity in Canada is unfolding largely as expected, led by government and consumer spending. Housing activity is declining markedly from high levels, consistent with the Bank's view that policy stimulus resulted in household expenditures being brought forward into late 2009 and early 2010." The Bank now expects the economic recovery in Canada to be more gradual than it had projected in its April *Monetary Policy Report*, with growth of 3.5% in 2010, 2.9% in 2011, and 2.2% in 2012. Their previous forecast was for 3.7% in 2010, before slowing to 3.1% in 2011 and 1.9% in 2012. It also mentioned that it now expects the economy to return to full capacity at the end of 2011, two quarters later than had been anticipated in April.

Housing activity slowed in the second quarter of 2010 compared to the first quarter of the year. In a July 15, 2010 press release, the Canadian Real Estate Association ("CREA") said: "Tightened mortgage regulations and anticipated interest rate increases cooled sales activity throughout the second quarter, resulting in a decline of 13.3% from near-record levels in the first quarter. As expected, these two national factors contributed to a widespread decline in activity, with transactions down in all but a dozen or so smaller markets." Compared to last year, the CREA said: "Actual sales activity in the second quarter stood 2.8% below levels reported in the second quarter of 2009." At the end of the quarter, June home sales activity declined 8.2% from May levels and 19.7% compared to June 2009. New home listings were down 6.8% from May, following a monthly decline of 4.8% in the month of May. Looking forward, the CREA is forecasting an easing of sales activity over the second half of 2010. According to the Canada Mortgage and Housing Corporation ("CMHC"), a similar trend is being seen in housing starts. The CMHC reported a month-over-month gain in housing starts of 3.7% in April, a 5.1% decline in May, and a decrease of 3.1% in June. The Chief Economist at CMHC's Market Analysis Centre said: "After a robust start to 2010, we expect the pace of housing starts activity to moderate and total 182,000 units by year-end." While the pace of housing starts activity is expected to moderate, the total 182,000 units still represent a 22% increase over 2009.

Consumer confidence was influenced by the above-mentioned factors, resulting in a decline of 6.4% in June, following a 5.3% increase in May, and a 8.3% decrease in April. The Consumer confidence index was strong at the beginning of the year, but has been very volatile in the second quarter. According to a recent internal survey conducted by RONA, consumers appear to be more confident in general than they were a year ago during the recession, but are still prudent and looking for deals or high value-added offerings.

Consolidated sales

Consolidated sales were $1,398.2 million, up $28.3 million, or 2.1%, including a 0.9% increase in same-store sales. The increase was the result of a 2.6% increase in Corporate and Franchised Stores segment sales and a 0.2% increase in Distribution segment sales.

Gross margin

The gross margin was 27.45%, up 25 basis points. This increase was due to a 32 basis point increase for the Corporate and Franchised Stores segment, offset partially by a 42 basis point decrease for the Distribution segment.

The adjusted gross margin was up by 45 basis points, to 30.26%. This increase consisted of a 49 basis point increase for the Corporate and Franchised Stores segment, offset partially by a 16 basis point decrease for the Distribution segment.

Consolidated EBITDA

EBITDA amounted to $134.5 million, an increase of $11.6 million, or 9.5%, and the EBITDA margin increased 65 basis points to 9.62%. Excluding unusual items, EBITDA was up $3.4 million, or 2.6%, and the EBITDA margin was up 5 basis points. Charges for unusual items were incurred only in the second quarter of 2009 and related to the cost of store closures. The growth in EBITDA and EBITDA margin were mainly due to a $4.4 million EBITDA increase and an EBITDA margin improvement of 15 basis points by the Corporate and Franchised Stores segment.

Interest, amortization and depreciation

Interest expenses on long-term debt and bank loans were reduced by $0.3 million, or 5.6%. This decline is attributable to a share issue in June 2009 and a more disciplined management of the balance sheet and capital investments, resulting in lower net debt levels.

Amortization and depreciation costs totalled $29.2 million, an increase of $2.6 million or 9.6%. This increase can be attributed to an impairment charge to reduce the carrying value of a building, the opening of new corporate stores, the renovation program for existing corporate stores and ongoing improvements to information systems.

Net earnings

Net earnings were up $7.0 million to $67.8 million, and earnings per share (diluted) were up $0.01 to $0.52. Excluding unusual items recorded in 2009, net earnings were up $1.4 million, or 2.0%, and earnings per share (diluted) were down $0.03, or 5.5%. Difference between net earnings growth and earnings per share decrease is explained by the differences in average shares outstanding during the respective periods. Excluding this effect, earnings per share (diluted) were up $0.01 or 1.8% to $0.58. Net earnings were up due to the performance of the Corporate and Franchised Stores segment.

Analysis of segment results for the three-month period ended June 27, 2010

The results discussed and analyzed in this section are for the three-month period ended June 27, 2010 and, when compared, are compared to the results for the three-month period ended June 28, 2009, unless otherwise indicated.

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

RONA: Key segment figures for the quarter ended June 27, 2010

(In thousands of dollars)	Second quarter 2010	Second quarter 2009	$ change from Q2 2009	% change from Q2 2009
Segment sales				
Corporate and franchised stores	1,067,590	1,040,093	27,497	2.6%
Distribution	710,942	693,709	17,233	2.5%
Total	1,778,532	1,733,802	44,730	2.6%
Intersegment sales and royalties				
Corporate and franchised stores	-	-	-	-
Distribution	(380,369)	(363,895)	(16,474)	(4.5%)
Total	(380,369)	(363,895)	(16,474)	(4.5%)
Sales				
Corporate and franchised stores	1,067,590	1,040,093	27,497	2.6%
Distribution	330,573	329,814	759	0.2%
Total	1,398,163	1,369,907	28,256	2.1%
EBITDA				
Corporate and franchised stores	109,427	96,846	12,581	13.0%
Distribution	25,092	26,030	(938)	(3.6%)
Total	134,519	122,876	11,643	9.5%
EBITDA (excluding unusual items)				
Corporate and franchised stores	109,427	105,065	4,362	4.2%
Distribution	25,092	26,030	(938)	(3.6%)
Total	134,519	131,095	3,424	2.6%
EBITDA margin				
Corporate and franchised stores	10.25 %	9.31 %	-	+94 b.p.
Distribution	7.59 %	7.89 %	-	-30 b.p.
Total	9.62 %	8.97 %	-	+65 b.p.
EBITDA margin (excluding unusual items)				
Corporate and franchised stores	10.25 %	10.10 %	-	+15 b.p.
Distribution	7.59 %	7.89 %	-	-30 b.p.
Total	9.62 %	9.57 %	-	+5 b.p.

Corporate and franchised stores

Sales were $1,067.6 million, an increase of $27.5 million, or 2.6%, including an increase of 0.9% for same-store sales. Overall, sales were strong in the early part of the quarter as was the pace of economic recovery and housing market activity. However, as the quarter progressed, sales were negatively affected by some poor weather in the month of May and June, particularly in Alberta and Quebec, a decline in consumer confidence, a slowing down of the housing market across Canada, purchases advanced to the first quarter because of good weather and renovation tax credit incentives, and delays in imports from China. In the retail segment, lumber and HVAC (heating, ventilation and air conditioning) categories were strong in the quarter, but the seasonal and horticultural categories were weak due to unfavourable weather and delays in imports from China. As in the first quarter, the Commercial and Professional Market division experienced strong sales growth in the plumbing, HVAC, lumber and building material segments.

EBITDA was $109.4 million, an increase of $12.6 million, or 13.0% and the EBITDA margin grew by 94 basis points, to 10.25%. Excluding unusual items, EBITDA would have been up $4.4 million, or 4.2%, and the EBITDA margin would have been up 15 basis points. The growth in EBITDA and EBITDA margin were the combined result of increased sales, gross margin improvements, and tight controls on selling, general and administrative ("SG&A") expenses. These improvements were offset partially by costs relating to maintaining strong service in-store while sales were weakening during the quarter.

Distribution

Net of intersegment activities, Distribution sales increased 0.2% to $330.6 million. Growth in lumber and building material sales was essentially offset by weakness in hardware sales, particularly in the seasonal and horticultural categories due to unfavourable weather conditions and delays in imports from Asia.

The Distribution segment generated $25.1 million in EBITDA, a decrease of $0.9 million, or 3.6%, due to increased shipping costs. This also explains part of the EBITDA margin decrease of 30 basis points, to 7.59%.

ANALYSIS OF CONSOLIDATED RESULTS FOR THE SIX-MONTH PERIOD ENDED JUNE 27, 2010

The results discussed and analyzed in this section are for the six-month period ended June 27, 2010 and, when compared, are compared to the results for the six-month period ended June 28, 2009, unless otherwise indicated.

Consolidated sales

Consolidated sales were $2,349.6 million, up $133.7 million, or 6.0%. Sales growth is attributable to new store openings and same-store sales growth of 4.6% in the first half of the year. Four stores were opened in the first half of the year, two in Ontario, one in Alberta and one in Saskatchewan. The strong growth in same-store sales during the early part of 2010 to a large extent mirrors the recovery in the Canadian economy, which started the year at a strong pace, but more recently appears to be slowing down, particularly in the area of housing activity. This was reflected in the quarterly growth rates of 12.5% for the first quarter and 2.1% for the second quarter. Atypical weather patterns have also had some impact on sales. Our Commercial and Professional Market division recorded strong sales growth in the first half of the year for all product lines, especially in the plumbing and HVAC segments.

Gross margin

The gross margin improved by 19 basis points, to 27.79%. This increase was driven primarily by a 25 basis point improvement in second quarter results, tempered somewhat by a smaller improvement of 4 basis points in the first quarter of 2010. The more significant margin improvement of the second quarter reflects, to a certain degree, the time it often takes to realize the full impact of efficiency and productivity initiatives as well as the impact of higher volumes in the second quarter.

The adjusted gross margin rose by 40 basis points, to 30.93%. In addition to the gross margin improvements, the adjusted gross margin was boosted by the resulting supportive effect on network growth of better terms and conditions from our suppliers.

Consolidated EBITDA

EBITDA was $169.8 million, up $21.4 million, or 14.4%, and the EBITDA margin increased to 7.23%, a rise of 53 basis points. Excluding unusual items, EBITDA was up $13.2 million, or 8.4%, and the EBITDA margin was up 16 basis points. This increase is the result of 38.4% growth in the first quarter of 2010, tempered somewhat by slower growth in the second quarter of 2.6%. In addition to reflecting improved gross margins, this EBITDA increase also reflects some success in controlling the growth of SG&A costs, in spite of additional costs associated with new store openings.

Interest, amortization and depreciation

Interest expenses on long-term debt and bank loans were reduced by $0.8 million, or 6.7%. This decline is attributable to a share issue in June 2009 and continued effort over the first two quarters of the year to maintain a more disciplined management of the balance sheet and capital investments, resulting in lower debt levels.

Amortization and depreciation costs totalled $55.3 million, an increase of $3.8 million or 7.4%. This increase can be attributed to an impairment charge to reduce the carrying value of a building, the opening of new corporate stores, the renovation program for existing corporate stores and ongoing improvements to information systems.

Net earnings

Net earnings were up $12.6 million, or 21.6%, to $70.9 million, and earnings per share (diluted) were up $0.05, or 10.2%, to $0.54. Excluding unusual items, net earnings were up $6.9 million, or 10.7%, and earnings per share (diluted) were $0.54, the same as in 2009. Difference between net earnings growth and earnings per share growth is explained by the differences in average shares outstanding during the respective periods. The increase in net earnings is due to the strong performance of the Corporate and Franchised Stores segment over the first half of the year.

ANALYSIS OF SEGMENT RESULTS FOR THE SIX-MONTH PERIOD ENDED JUNE 27, 2010

The results discussed and analyzed in this section are for the six-month period ended June 27, 2010 and, when compared, are compared to the results for the six-month period ended June 28, 2009, unless otherwise indicated.

RONA: Key segment figures, for the six-month period ended June 27, 2010

(In thousands of dollars)	Year-to-date 2010	Year-to-date 2009	$ Change from 2009	% Change from 2009
Segment sales				
Corporate and franchised stores	1,759,383	1,657,185	102,198	6.2%
Distribution	1,255,551	1,170,083	85,468	7.3%
Total	3,014,934	2,827,268	187,666	6.6%
Intersegment sales and royalties				
Corporate and franchised stores	-	-	-	-
Distribution	(665,344)	(611,351)	(53,993)	(8.8%)
Total	(665,344)	(611,351)	(53,993)	(8.8%)
Sales				
Corporate and franchised stores	1,759,383	1,657,185	102,198	6.2%
Distribution	590,207	558,732	31,475	5.6%
Total	2,349,590	2,215,917	133,673	6.0%
EBITDA				
Corporate and franchised stores	129,727	106,373	23,354	22.0%
Distribution	40,070	41,995	(1,925)	(4.6%)
Total	169,797	148,368	21,429	14.4%
EBITDA (excluding unusual items)				
Corporate and franchised stores	129,727	114,611	15,116	13.2%
Distribution	40,070	41,995	(1,925)	(4.6%)
Total	169,797	156,606	13,191	8.4%
EBITDA margin				
Corporate and franchised stores	7.37 %	6.42 %	-	+95 b.p.
Distribution	6.79 %	7.52 %	-	-73 b.p.
Total	7.23 %	6.70 %	-	+53 b.p.
EBITDA margin (excluding unusual items)				
Corporate and franchised stores	7.37 %	6.92 %	-	+45 b.p.
Distribution	6.79 %	7.52 %	-	-73 b.p.
Total	7.23 %	7.07 %	-	+16 b.p.

Corporate and franchised stores

Sales were $1,759.4 million, an increase of $102.2 million, or 6.2%. Sales growth is attributable to new store openings and same-store sales growth of 4.6% in the first half of the year. Four stores were opened in the first half of the year, two in Ontario, one in Alberta and one in Saskatchewan. The strong growth in same-store sales during the early part of 2010 to a large extent mirrors the recovery in the Canadian economy, which started the year at a strong pace, but more recently appears to be slowing down, particularly in the area of housing activity. This was reflected in the quarterly growth rates of 12.1% for the first quarter and 2.6% for the second quarter. Atypical weather patterns have also had some impact on sales. Within the segment, our Commercial and Professional Market division recorded strong sales growth in the first half of the year for all product lines, especially in the plumbing and HVAC segments.

EBITDA was $129.7 million, an increase of $23.4 million, or 22.0%, and the EBITDA margin grew by 95 basis points, to 7.37%. Excluding unusual items recorded in 2009, EBITDA would have been up $15.1 million, or 13.2%, and the EBITDA margin would have been up 45 basis points. In addition to reflecting improved gross margins, this EBITDA increase also reflects some success in controlling the growth of SG&A costs, in spite of additional costs associated with new store openings.

Distribution

Net of intersegment activities, distribution sales increased 5.6% to $590.2 million. This sales increase is the result of 13.4% growth in the first quarter of 2010, tempered somewhat by slower growth in the second quarter of 0.2%, reflecting the slowdown in economic and housing market activity in the latter part of the second quarter as well as unfavourable weather conditions and delays in imports from China.

EBITDA was $40.1 million, a decrease of $1.9 million, or 4.6%. This decrease in EBITDA is the combination of a 6.2% decrease in the first quarter of 2010 and a 3.6% decrease in the second quarter. The EBITDA margin decrease of 73 basis points, to 6.79%, reflects increased shipping costs, as well as lower margin products, such as lumber and building materials, being a much higher component of sales.

CASH FLOWS AND FINANCIAL POSITION

Operations generated $104.0 million of cash flow in the second quarter of 2010, compared to $87.7 million in the second quarter of 2009. Net of changes in working capital, operations generated $78.5 million of cash flow compared to $184.6 million generated in the second quarter of 2009. For the six-month period ended June 27, 2010, operations generated $136.6 million, compared to $114.1 million in 2009. Net of changes in working capital, operations used $5.3 million, compared to having generated $116.5 million in 2009. These decreases are mainly attributable to a $82.0 million increase in inventory reflecting the opening of new stores, acquisitions, new HVAC lines of products introduced in our Commercial and Professional Market division as well as new products introduced at our Calgary Distribution Center to support our growth in this part of the country. The decreases are also attributable to an increase in accounts receivable coming from a higher proportion of lumber and building material sales to the commercial and professional clientele. In spite of the increase in overall inventory level, inventory turns continued to increase.

Over the past year, the Company exercised disciplined financial management and strictly monitored investments in fixed assets. In the second quarter of 2010, RONA invested $33.3 million in capital and intangible assets compared to $50.0 million invested in the second quarter of 2009. These investments were devoted to the expansion of our retail network, including the construction of new stores, renovations and upgrades of existing stores, as well as maintenance. We also allotted part of these investments to ongoing improvements in our IT systems, in order to increase our operational efficiency. For the six-month period ended June 27, 2010, RONA invested $57.5 million in capital and intangible assets, $33.5 million less than the $91.0 million invested in 2009. The Company still plans to invest about $170 million during 2010.

With the approval of the Toronto Stock Exchange, during the second quarter, the Board of Directors of the Company has authorized RONA to purchase in the normal course of its activities, from June 21, 2010 to June 20, 2011, up to 3,250,000 common shares, representing 2.5% of its 129,936,351 common shares issued and outstanding on June 7, 2010. Under the issuer bid, the purchases will be made at market prices through the facility of the Toronto Stock Exchange or alternative Canadian trading platforms, in accordance with the rules and policies of the Toronto Stock Exchange. The common shares thereby purchased will be cancelled. The average daily trading volume of the

Company's common shares was 293,413 on the Toronto Stock Exchange over the last six completed calendar months (the ADTV). Accordingly, since the Company is entitled to purchase up to 25% of the ADTV on any trading day, it can purchase 73,353 common shares per day in addition to block trades in accordance with the Toronto Stock Exchange rules. The Company will use its normal course issuer bid to eliminate dilutive effect caused by the issuance of common shares when businesses are acquired. The Company believes that the purchase of its common shares would represent an effective use of its funds and would be in the best interests of the Company and its shareholders. Shareholders may obtain a free copy of the documents filed with the Exchange concerning this bid by writing to the Corporate Secretary of the Company.

In the second quarter, RONA completed the acquisitions of retailing chain Pierceys in the Halifax region in the Atlantic Provinces as well as the acquisition of a plumbing distributor in the region of Montreal, Quebec. These two acquisitions resulted in a $24.5 million outflow. As indicated in Note 6 of the financial statements, $35 million of treasury shares were also issued to finance the majority of the Pierceys transaction but this amount does not show up in the cash flow statement as it was a non-cash element. As indicated when Pierceys acquisition was announced, RONA will repurchase shares under the normal course issuer bid to compensate for the dilution caused by the issuance of treasury shares. This process which started in the second quarter, will continue.

Cash flow from operations, proceeds of the Company's June 2009 common share issue and disciplined management of working capital throughout the year allowed RONA to finance various investment projects and still reduce net debt. As at June 27, 2010, the Company's net debt was reduced by $21.6 million compared to June 28, 2009. As at June 27, 2010, RONA had $148.8 million in cash, which will be used over forthcoming quarters to realize various growth projects in Phase 2 of the Company's 2008–2011 strategic plan. RONA also has an undrawn committed credit facility of up to $650 million.

The table below presents a synopsis of the Company's contractual obligations as at June 27, 2010, including operating lease agreements used in the normal course of business. The Company has also concluded other arrangements (such as inventory buyback agreements and guaranteed mortgage loans), which do not appear in the table below. The Company has guaranteed mortgages amounting to $1.0 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 $5.6 million. 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 61% of the cost of the inventories to a maximum of $74.1 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, letters of credit for imports totalling $19.5 million were outstanding as at June 27, 2010 for the purchase of various, mainly seasonal, products.

RONA: Contractual obligations by term
(as at June 27, 2010)

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	427,723	4,071	14,885	4,564	404,203
Obligations under capital leases	5,140	2,809	1,687	391	253
Operating and other leases	1,105,895	123,215	229,894	194,892	557,894
Other long-term obligations	12,214	8,314	3,900	-	-
Total	1,550,972	138,409	250,366	199,847	962,350

RONA: Outstanding shares
As at July 28, 2010

Common shares	131,584,041
Unexercised options	2,080,969
Total	133,665,010

RONA's balance sheet was strengthened over the past year. On June 27, 2010, the ratio of total net debt to capital was 13.8%, compared to 16.2% as at June 28, 2009. The ratio of equity to assets was 61.5% at the end of the second quarter of 2010, compared to 58.2% as at June 28, 2009.

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: customer growth, construction of new stores, recruitment of affiliated dealers 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 period of the year is from spring to 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 and Franchise Stores segment, the seasonal impact of the first quarter has been more pronounced in 2008, 2009 and 2010 than in previous years. The second quarter is always the strongest of the year, followed by the third quarter.

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

	2010		2009				2008 (restated)		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Sales	1,398.2	951.4	1,140.9	1,320.5	1,369.9	846.0	1,124.6	1,381.7	1,473.3
EBITDA	134.5	35.3	78.8	105.8	122.9	25.5	75.3	112.5	150.3
EBITDA (excluding unusual items)	134.5	35.3	78.4	111.8	131.1	25.5	76.2	121.0	153.1
Net earnings (net loss)	67.8	3.0	30.9	49.1	60.8	(2.5)	29.8	52.5	76.6
Net earnings (net loss) (excluding unusual items)	67.8	3.0	30.6	53.3	66.5	(2.5)	30.4	58.9	80.6
Earnings (loss) per share ($)	0.52	0.02	0.24	0.38	0.51	(0.02)	0.26	0.45	0.66
Earnings (loss) per share ($) (excluding unusual items)	0.52	0.02	0.24	0.41	0.56	(0.02)	0.26	0.51	0.70
Diluted earnings (loss) per share ($)	0.52	0.02	0.24	0.38	0.51	(0.02)	0.25	0.45	0.66
Diluted earnings (loss) per share ($) (excluding unusual items)	0.52	0.02	0.23	0.41	0.55	(0.02)	0.26	0.50	0.69

Note: Results for 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

Q2-2008	Q3-2008	Q4-2008	Q1-2009	Q2-2009	Q3-2009	Q4-2009	Q1-2010	Q2-2010
-4.9%	-3.5%	-1.4%	-8.5%	-6.2%	-5.3%	+0.7%	+10.8%	+0.9%

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

OUTLOOK

While an economic recovery appears to be underway, the pace of recovery seen in the first part of the year does not appear to be sustainable. In particular, housing activity, such as sales, new listings and starts, slowed down in the latter part of the second quarter.

As mentioned under Economic Conditions, the Bank of Canada sees economic activity in Canada unfolding largely as expected. However, it now expects the economic recovery in Canada to be more gradual than it had projected in its April *Monetary Policy Report*, with growth of 3.5% in 2010, 2.9% in 2011, and 2.2% in 2012. Their previous forecast was for 3.7% in 2010, before slowing to 3.1% in 2011 and 1.9% in 2012. The Bank now expects the economy to return to full capacity at the end of 2011, two quarters later than had been anticipated in April.

In terms of housing activity, both the CREA and CMHC, along with the Bank of Canada, are expecting an easing of activity in the second half of 2010.

So economic growth continues to be anticipated, but at a slower rate. This continues to be generally in line with the economic background the Company was anticipating when it unveiled its New World program in January, Phase 2 of RONA's 2008-2011 strategic plan.

Under the New World program, RONA's growth initiatives are grouped into four vectors. The first vector is customer growth – the term RONA now uses to designate organic growth or same-store growth. New store construction, development of the affiliated dealer network, and strategic acquisitions are three vectors which are focused on growth through the development of the network.

Customer growth will be stimulated by numerous initiatives to improve the customer experience – innovative store concepts, new product categories, new private brand and controlled-label products, new tools to improve customer loyalty, and new training programs for store employees. The Company's new succession planning program will also help RONA attract next-generation dealer-owners and continue to be the company that offers independent dealer-owners in Canada the best development support.

One objective of the New World program is to increase RONA's market share in Canada from the current 17.5% to 20%. The main financial objectives of the New World program are:

- Increase the EBITDA margin by 20 to 30 basis points per year.
- Increase earnings per share by an average of 10% to 15% over the period.
- Increase the return on capital by 75 to 100 basis points over the period.
- Maintain an investment grade credit profile.

Achievement of these objectives is based on the following assumptions:

- Same-store sales will increase by 2% to 2.5% on average over the period.
- The penetration rate for private brand and controlled-label products will increase from 19% to 24%.
- Retail sales in the affiliate network will grow by $100 million to $150 million per year.
- Sales of about $80 million per year will be generated by new store construction and relocation or expansion of existing stores.
- There will be further strategic acquisitions.

Looking forward, Management believes that the programs they are implementing, and those planned, should position RONA well to exploit current market conditions and move quickly to take advantage of the business opportunities that it sees in its sector, given the Company's solid balance sheet and extensive financial flexibility.

The acquisition of Pierceys this quarter positions the Company well for growth in the Atlantic Provinces, as it not only substantially increases its retail space in the region, but also gives RONA a significant presence in one of the most important parts of the region, Halifax. The signing up of Moffatt & Powell Limited will enlarge the Company's footprint in the Southwestern Ontario region, an area that presents great potential for growth. While the Company's performance in the first half of the year has been good, Management is aware that market conditions may not be as strong in the second half of the year. On top of the many development projects in the pipeline, RONA will continue to offer strong service, appealing merchandising, and innovative marketing in order to continue to increase its share of the market independently of the market environment.

Notwithstanding current expectations for the economy, in particular, the housing market, Management believes that the financial assumptions and objectives outlined above are still achievable over the two-year period covered by the plan and do not warrant revision at this moment.

RISKS AND UNCERTAINTIES

There have been no significant changes to the Company's principal risks and uncertainties during the second quarter of 2010. Please refer to the *Annual Management's Discussion and Analysis for the year ended December 27, 2009,* for a complete description of the risks the Company faces.

CHANGES IN ACCOUNTING POLICIES

No major change has occurred since the publication of the *Annual Management's Discussion and Analysis for the year ended December 27, 2009*.

NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED

International Financial Reporting Standards

In 2009, the Accounting Standards Board of Canada (AcSB) confirmed that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS, which will go into effect during 2011. IFRS use a conceptual framework similar to that of Canadian GAAP, but include 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 applicable on the conversion date are known. According to the newsletter issued in December 2009 by the AcSB, however: "The International Accounting Standards Board (IASB) recently reviewed its work plan and adjusted the timing for several active projects to amend IFRS. As a result of those adjustments, it now seems clear that no further significant changes to IFRS will be mandatory for 2011 calendar years."

For the Company, conversion to IFRS will be required for financial statements for periods beginning on December 27, 2010. Comparative data will have to be restated to comply with IFRS. As a result, the Company has developed a plan to convert its financial statements to IFRS that focuses on the key areas of impact, including financial reporting, company operations, systems and processes, and internal controls, as well as communications and training. The four phases of the plan are 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 4 of the conversion plan – Implementation.

To carry out a detailed evaluation of the potential impact, IFRS have been grouped by topic and distributed among 11 task forces comprising employees from every affected sector of the Company. Members of each task force are responsible for evaluating the impact of the differences between Canadian GAAP and IFRS and for recommending accounting policies to management.

As expected, the Company has completed most of its conversion plan. Phase 4, Implementation will be completed before the end of the last quarter of 2010.

The table below provides a summary of the main activities and the completion status of the Company's conversion plan.

Main activities	Completion status
Financial reporting	
• Identify differences between IFRS and the Company's current accounting policies, choose IFRS accounting policies and analyse the impact on the Company's financial statements.	• Preliminary analyses of the differences and choices of accounting policies with a potentially material impact on the Company's financial statements were prepared and presented to the Audit Committee in 2009. The Company was assisted in this task by external IFRS experts.
• Analyse and choose the IFRS 1 exemptions to retain on changeover to IFRS.	• The IFRS 1 exemptions were analysed in early 2009 and preliminary choices were presented to the Audit Committee.
• Prepare the opening balance sheet, the transition note, and the model IFRS financial statements.	• The audited opening balance sheet for internal use was prepared during the second quarter of 2010 and presented to the Audit Committee on August 10, 2010. The model financial statements are currently being prepared and will be presented to the Audit Committee in November 2010.
• Prepare interim 2010 financial statements under IFRS.	• The preliminary interim Consolidated Earnings Statement and Balance Sheet for the first quarter of 2010 under IFRS were prepared during the second quarter of 2010 and presented to the Audit Committee on August 10, 2010. Complete financial statements for the first two quarters of the year will be prepared during the third quarter.
• Prepare an accounting policy and procedures manual.	• An accounting policy and procedures manual is being prepared.
Company operations	
• Review major contracts, particularly those related to financing, to ensure certain covenants are met after the transition to IFRS.	• The review is underway but the Company does not anticipate any major impacts.
• Verify the impact of changes on compensation programs.	• The short-term compensation programs vary with year-over-year changes in results and adherence to budget. Both the 2010 results and the 2011 budget will be prepared using IFRS. Long-term compensation programs are primarily based on a comparison of the return on net assets of the Company with that of a group of publicly traded Canadian companies. Therefore the Company does not anticipate any impact on the calculation of amounts to be granted under these programs.
Systems and processes	
• Identify changes required in the Company's information systems and processes.	• The impacts on systems and processes were reviewed by the various task forces and the required adjustments will be carried out in 2010, in particular, a new fixed assets ledger is being implemented. A special procedure is required in 2010 to produce two sets of parallel financial statements. To do so, the Company uses its consolidation system and manual processes. • Several modifications will be made during the next quarter in the worksheets used to prepare the financial statements and the notes to the financial statements based on IFRS.

Internal controls	
• For all changes in accounting policies and procedures, evaluate internal controls related to financial information and communications controls and procedures from the standpoint of design and effectiveness. • Implement required changes over the course of 2010.	• The proposed changes to the accounting policies are approved by management and presented to the Audit Committee. • New internal controls, those affected by the new accounting policies and those required during the transition period, were identified and updated by the various task forces. • Efficiency tests for the controls will be carried out in fiscal years 2010 and 2011. Special attention will be given to controls that affect major changes in the organization's accounting policies, those related to new processes or systems, and those specific to the transition period.
Communications and training	
• Train employees who participate in the task forces.	• In 2009, specific training was given to employees involved in the task forces by specialized external IFRS consultants.
• Raise awareness among accounting staff of the changes ahead.	• Controllers in the various subsidiaries were met in 2009 and 2010 to be informed of the changes ahead.
• Train employees affected by changes in policies and procedures.	• Specific training will be given to these employees in 2010.
• Inform members of the Company's Management Committee of the impacts of the transition to IFRS.	• The Management Committee was informed of the major changes in accounting policies in 2009 and is provided with more detail as the work progresses.

Possible effects of implementation

The differences identified by the Company between IFRS and Canadian standards that will affect RONA have been quantified. However, the accounting methods selected by management and their application may require adjustments to reflect the impact of one or more of the following items: (i) the evaluation of financial reporting requirements as a result of new or revised standards issued by the International Accounting Standards Board (IASB) after August 10, 2010. (ii) modification of accounting methods selected by management. In addition, the impacts outlined below have not all as yet been audited and other differences could arise.

IFRS 1, First-time Adoption of International Financial Reporting Standards, provides for optional exemptions and mandatory exceptions to the general requirement of full retrospective application of IFRS. The Company has analysed the various possible accounting methods and will implement those considered most suitable. Most of the adjustments required for the transition to IFRS will be applied retrospectively to opening retained earnings at the date of the first balance sheet prepared under IFRS.

The table below summarizes the main IFRS 1 exemptions that the Company intends to avail itself of:

Area of application	Summary of exemptions
Business Combinations	Possible choice: The Company can choose not to apply IFRS 3, Business Combinations, retrospectively at the date of changeover or else apply it at an earlier date of its choosing. RONA's preliminary choice: IFRS 3 will be applied as of the date of changeover, that is December 28, 2009, so no impact is anticipated at the transition date.
Share-based Payment	Possible choice: IFRS 2, Share-based Payment, applies with no possible choices to equity instruments granted after November 7, 2002, and that will be vested after the transition date. The Company can choose to apply IFRS 2 retrospectively to equity instruments granted before November 7, 2002, or to all those vested at the transition date. RONA's preliminary choice: The Company has elected to apply IFRS 2 only to grants after November 7, 2002, that will be vested after the transition date.

Area of application	Summary of exemptions (continued)
Employee benefits	Possible choice: The Company can choose to recognize all unamortized actuarial gains and losses in retained earnings at the transition date. RONA's preliminary choice: The Company intends to avail itself of this exemption. The defined benefit asset will therefore be reduced by $10.2 million.
Borrowing costs	Possible choice: The Company can capitalize borrowing costs incurred during the construction of eligible assets as of the transition date or as of an earlier date of its choosing. RONA's preliminary choice: The Company intends to avail itself of this exemption and will derecognize interest capitalized before the transition date. The carrying value of land and buildings will be reduced by $18.3 million and the carrying value of certain intangible assets will be reduced by $2.0 million.

The table below sets out the differences between the Canadian and international accounting standards that may have a major impact on the Company's consolidated financial statements, resulting from modifications required on the changeover to IFRS. The list and comments present only the highlights of the main differences between the accounting standards as noted by the Company to date. The differences outlined below are based on Canadian GAAP and IFRS in effect as at January 1, 2010.

IFRS standard	Impact of adoption
IFRS 3 – Business Combinations	Possible choice of accounting policy: Non-controlling interests may be measured: a) at fair value or b) at the proportionate share of the acquiree's net identifiable assets. RONA's preliminary choice: Proportionate share of the acquiree's net identifiable assets. Consequently, the Company does not anticipate any impact in this regard. Difference impacting RONA: IFRS 3 requires that transaction costs on business acquisitions be expensed as incurred. Under Section 1581, Business combinations, of the Canadian GAAP currently applied by the Company, the direct costs related to acquisitions are included in the capitalizable costs of the transaction. Anticipated impact at transition: None. Anticipated future impact: The impact on earnings will change based on the number and size of acquisitions. For the first quarter of 2010, the impact on net earnings is $0.2 million.
IAS 31 – Interests in Joint Ventures	Possible choice of accounting policy: Method of recognizing interests in jointly controlled entities: a) proportionate consolidation or b) equity method of accounting. RONA's preliminary choice: proportionate consolidation. Anticipated impact at transition: None Anticipated future impact: None
IAS 16 – Property, Plant and Equipment	Possible choice of accounting policy: Evaluation method: a) cost model or b) revaluation model. RONA's preliminary choice: cost model Differences impacting RONA: 1) Under IAS 16, each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately. The Company will adopt component accounting for its buildings at the date of conversion to IFRS. 2) Certain costs incurred prior to management's decision to acquire a site as well as certain operating costs subsequent to the acquisition but prior to the development period do not meet the conditions for recognition as an asset. 3) Under IAS 16, depreciation begins when the asset is put into service whereas under Canadian GAAP depreciation commences when the asset is utilized by the Company. Anticipated impact at transition: 1) Component accounting for buildings will increase their undepreciated carrying values by $1.0 million. 2) Costs incurred prior to acquisition decisions as well as certain operating costs subsequent to the acquisition but prior to the development period will be derecognized which will reduce the value of property, plant and equipment by $9.7 million and fixed assets held for sale by $1.2 million. 3) Property, plant and equipment will be reduced by $2.5 million as a result of depreciation commencing at an earlier date. Anticipated future impact: The annual depreciation charge for buildings will be reduced and costs incurred prior to acquiring land and operating costs subsequent to the acquisition but prior to the development period will be expensed. For the first quarter of 2010, the impact of these differences is a reduction of $0.3 million in net earnings.

IFRS standard	Impact of adoption (continued)
IAS 17 – Leases	Possible choice of accounting policy: None Difference impacting RONA: IAS 17 indicates that for all sale and leaseback transactions at fair value, which result in a simple lease contract for the lessee, all gains must be immediately recorded in income. Under Section 3065, Rental Contracts, of Canadian GAAP, a gain from a sale is deferred and recorded in income over the duration of the lease. Anticipated impact at transition: The deferred gain as at December 28, 2009 of $11.3 million, currently recorded in other liabilities, will be reversed to retained earnings along with the deferred costs of the sale and leaseback transaction recorded in other assets in the amount of $2.6 million. Anticipated future impact: The Company's before-tax results will be reduced by $0.9 million annually until 2020.
IAS 39 – Financial Instruments: Recognition and Measurement	Possible choice of accounting policy: None Difference impacting RONA: Under IAS 39, a foreign currency derivative embedded in a purchase contract that provides for payments drawn in a relatively stable, liquid currency that is routinely used for trade outside the country where the transaction takes place cannot be accounted for separately. Under Section 3855, Financial Instruments – Recognition and Measurement, entities may choose whether to account for embedded derivatives separately. In 2007, when Section 3855 came into effect, RONA elected to account separately for derivatives embedded in purchase orders. Anticipated impact at transition: Embedded derivatives accounted for in purchase orders from Asia amounting to $0.8 million will be reversed to retained earnings and inventory will be reduced by $0.5 million. Anticipated future impact: In early 2010, to recognize the changes in the fair value of hedge instruments in the same accounting period as the currency gains and losses related to disbursements, the Company introduced a cash flow hedge accounting strategy for IFRS purposes only.
IAS 19– Employee Benefits	Possible choice of accounting policy: Actuarial gains or losses can be accounted for as follows: a) recognition in earnings of a portion of the excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligations and the fair value of plan assets through amortization over the average remaining service period of the active employees (the "corridor approach"); b) recognized immediately in earnings or c) recognized immediately in comprehensive income without subsequent reversal to earnings. RONA's preliminary choice: The Company will use the corridor approach, which is the method currently used in compliance with Canadian GAAP. Anticipated impact at transition: None due to the choice of policy. The impact at transition can be attributed to the application of the IFRS 1 exemption discussed above. Anticipated future impact: No major impact is anticipated.
IFRIC 14 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Possible choice of accounting policy: None Differences impacting RONA: 1) Under IFRIC 14, an entity cannot recognize a defined benefit asset if it does not have an unconditional right to the surplus in the event of the closure of the plan, for example, and if it does not have the right to reduce future contributions. 2) If an entity is obliged to pay contributions to cover an existing deficit under services already performed and it does not have the unconditional right to the surplus, the entity must record a liability when the obligation arises. Anticipated impact at transition: A total of $1.4 million will be reversed from the defined benefit asset and an additional liability of $6.3 million, equivalent to the minimum funding obligation, will be recorded for the plans affected by IFRIC 14. Anticipated future impact: The amount of the minimum funding liability will have to be adjusted each year and the difference recorded in earnings.

IFRS standard	Impact of adoption (continued)
IAS 36 – Impairment of Assets	Possible choice of accounting policy: None Differences impacting RONA: 1) For long-term finite-life assets, IFRS require a one-step impairment test to be carried out to determine whether there is impairment and to measure it by comparing the carrying value of an asset with the higher of the value in use and the fair value less costs to sell. Under Canadian GAAP, impairment is based on discounted cash flows only if the non-discounted cash flows are lower than the carrying value. 2) Previously recognized impairment losses are reversed when a change of situation indicates that the impairment has been reduced, other than for goodwill and intangible assets with indefinite lives. Anticipated impact at transition: The long-term assets of two stores will be written down by a total of $4.8 million at the transition date because of discounted cash flows. Anticipated future impact: The IFRS one-step impairment test may lead to more frequent impairment losses or gains.

In conclusion, preparations for the transition to IFRS are advancing rapidly and according to plan. A number of adjustments to the financial statements are foreseen as soon as IFRS are adopted. The Company will soon be able to provide additional quantitative data on the impact of IFRS on its financial statements. According to the results to date, the Company is confident that the transition will meet all requirements.

SIGNIFICANT ACCOUNTING ESTIMATES

No major change has occurred since the publication of the *Annual Management's Discussion and Analysis for the year ended December 27, 2009*.

Internal control over financial reporting

During the second quarter ended June 27, 2010, 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, 2010, 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, 2010. 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 (signed)	*Robert Dutton (signed)*
Claude Guévin, CA Executive Vice President and Chief Financial Officer	Robert Dutton President and Chief Executive Officer

RONA inc.
Consolidated Earnings
For the thirteen and twenty-six-week periods ended June 27, 2010 and June 28, 2009
(Unaudited, in thousands of dollars, except earnings per share)

	Second Quarter		Year-to-date	
	2010	2009	2010	2009
Sales	$ 1,398,163	$ 1,369,907	$ 2,349,590	$ 2,215,917
Earnings before the following items (Note 4)	134,519	122,876	169,797	148,368
Interest on long-term debt	5,141	5,206	9,997	10,531
Interest on bank loans	275	530	840	1,086
Depreciation and amortization (Note 7)	29,187	26,633	55,323	51,523
	34,603	32,369	66,160	63,140
Earnings before income taxes and non-controlling interest	99,916	90,507	103,637	85,228
Income taxes	29,275	27,514	30,369	25,909
Earnings before non-controlling interest	70,641	62,993	73,268	59,319
Non-controlling interest	2,809	2,197	2,413	1,040
Net earnings and comprehensive income	$ 67,832	$ 60,796	$ 70,855	$ 58,279
Net earnings per share (Note 14)				
Basic	$ 0.52	$ 0.51	$ 0.55	$ 0.50
Diluted	$ 0.52	$ 0.51	$ 0.54	$ 0.49

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 27, 2010 and June 28, 2009

(Unaudited, in thousands of dollars)

	2010	2009
Consolidated Retained Earnings		
Balance, beginning of period	$ 1,161,808	$ 1,028,876
Net earnings	70,855	58,279
Expenses relating to the issue of common shares, net of income tax recovery of $1,821	–	(4,730)
Excess of purchase price over stated capital of repurchased common shares and related contributed surplus (Note 9)	(213)	–
Balance, end of period	$ 1,232,450	$ 1,082,425
Consolidated Contributed Surplus		
Balance, beginning of period	$ 13,475	$ 12,563
Compensation cost relating to stock option plans	606	473
Repurchase of common shares – normal course issuer bid (Note 9)	(3,153)	–
Exercise of stock options	(12)	–
Balance, end of period	$ 10,916	$ 13,036

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 27, 2010 and June 28, 2009
(Unaudited, in thousands of dollars)

	Second Quarter		Year-to-date	
	2010	2009	2010	2009
Operating activities				
Net earnings	$ 67,832	$ 60,796	$ 70,855	$ 58,279
Non-cash items				
Depreciation and amortization	29,187	26,633	55,323	51,523
Derivative financial instruments	293	121	183	(1,121)
Future income taxes	3,337	(3,585)	5,648	4,172
Net gain on disposal of assets	(1,000)	(282)	(1,093)	(1,936)
Compensation cost relating to stock option plans	303	171	606	473
Compensation cost relating to share unit plans	1,066	1,150	2,273	555
Non-controlling interest	2,809	2,197	2,413	1,040
Other items	182	536	404	1,071
	104,009	87,737	136,612	114,056
Changes in working capital items	(25,482)	96,872	(141,940)	2,472
Cash flows from operating activities	78,527	184,609	(5,328)	116,528
Investing activities				
Business acquisitions (Note 6)	(24,491)	(3,214)	(27,553)	(3,214)
Advances to joint ventures and other advances	–	(588)	–	(1,007)
Other investments	(641)	–	(641)	(526)
Fixed assets	(23,625)	(37,530)	(42,479)	(70,931)
Intangible assets	(9,633)	(12,514)	(15,007)	(20,056)
Other assets	(1,828)	(1,430)	(2,428)	(2,810)
Disposal of fixed assets	1,005	1,317	1,330	3,488
Disposal of investments	4,279	694	4,680	1,165
Cash flows from investing activities	(54,934)	(53,265)	(82,098)	(93,891)
Financing activities				
Bank loans and revolving credit	3,793	(149,707)	8,135	(36,042)
Other long-term debt	–	–	–	188
Repayment of other long-term debt and redemption of preferred shares	(2,107)	(3,753)	(7,907)	(5,957)
Issue of common shares	992	151,678	1,556	152,026
Expenses relating to the issue of common shares	–	(6,118)	–	(6,118)
Repurchase of common shares	(4,785)	–	(4,785)	–
Cash flows from financing activities	(2,107)	(7,900)	(3,001)	104,097
Net increase (decrease) in cash	21,486	123,444	(90,427)	126,734
Cash, beginning of period	127,344	15,635	239,257	12,345
Cash, end of period	$ 148,830	$ 139,079	$ 148,830	$ 139,079
Supplementary information				
Interest paid	$ 4,878	$ 1,112	$ 11,353	$ 13,320
Income taxes paid	$ 14,756	$ 7,356	$ 25,037	$ 21,160

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

RONA inc.
Consolidated Balance Sheets
June 27, 2010, June 28, 2009 and December 27, 2009
(In thousands of dollars)

	June 27, 2010 (Unaudited)	June 28, 2009 (Unaudited)	December 27, 2009
Assets			
Current assets			
Cash	$ 148,830	$ 139,079	$ 239,257
Accounts receivable	367,441	347,162	250,845
Income taxes receivable	2,738	5,898	2,436
Inventory (Note 3)	942,338	860,193	726,262
Prepaid expenses	31,405	33,461	18,114
Derivative financial instruments	255	63	801
Future income taxes	15,836	15,609	15,914
	1,508,843	1,401,465	1,253,629
Investments	11,377	9,236	11,978
Fixed assets	871,388	837,404	868,359
Fixed assets held for sale (Note 8)	13,564	45,741	13,242
Goodwill	504,087	456,246	455,572
Intangible assets	97,226	70,854	89,828
Other assets	31,029	28,446	29,682
Future income taxes	26,035	26,580	27,593
	$ 3,063,549	$ 2,875,972	$ 2,749,883
Liabilities			
Current liabilities			
Bank loans	$ 12,901	$ 9,676	$ 5,211
Accounts payable and accrued liabilities	627,660	653,463	427,817
Derivative financial instruments	413	33	776
Future income taxes	4,299	5,053	4,900
Instalments on long-term debt	12,463	14,644	9,996
	657,736	682,869	448,700
Long-term debt	424,795	437,725	430,524
Other long-term liabilities	32,142	29,844	31,317
Future income taxes	31,078	21,299	27,542
Non-controlling interest	35,375	29,962	32,761
	1,181,126	1,201,699	970,844
Shareholders' equity			
Capital stock (Note 9)	639,057	578,812	603,756
Retained earnings	1,232,450	1,082,425	1,161,808
Contributed surplus	10,916	13,036	13,475
	1,882,423	1,674,273	1,779,039
	$ 3,063,549	$ 2,875,972	$ 2,749,883

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

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 27, 2009. The interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 27, 2009. The interim operating results do not necessarily reflect the results for the full fiscal year. Accordingly, the comparative balance sheet as at June 28, 2009 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. Effect of new accounting standards not yet implemented

International financial reporting standards (IFRS)

In 2009, the Accounting Standards Board of Canada confirmed that Canadian GAAP for publicly accountable enterprises will be replaced by IFRS, which will go into effect during 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. Preparations for the transition to IFRS are advancing rapidly and according to the plan prepared by the Company.

3. Inventory

For the thirteen and twenty-six-week periods ended June 27, 2010, amounts of $1,014,303 and $1,696,540 of inventory were expensed in the consolidated results ($997,356 and $1,604,354 in 2009). These amounts include inventory write-down charges of $9,421 and $16,638 ($12,034 and $18,897 in 2009).

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

4. 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 current period, the Company settled a lease obligation to one of these stores by a cash payment and reversed a related provision.

During the thirteen and twenty-six-week periods ended June 27, 2010, the Company recognized the following costs:

	Second Quarter		Year-to-date	
	2010	2009	2010	2009
Lease obligations	$ –	$ 7,955	$ –	$ 7,955
Reversal of provision	(2,944)	–	(2,944)	–
Inventory write-down	–	–	–	525
Total recorded in earnings before the following items	$ (2,944)	$ 7,955	$ (2,944)	$ 8,480

The liability for exit and disposal costs and write-down of assets, included in accounts payable and accrued liabilities, is as follows:

	2010	2009
Balance, beginning of period	$ 14,340	$ 3,575
Costs recognized: lease obligations	–	7,955
Accretion expense	197	–
Reversal of provision	(2,944)	–
Less: cash payments	(7,340)	(1,334)
Balance, end of period	$ 4,253	$ 10,196

Other closing costs

In 2009, during the thirteen and twenty-six-week periods ended June 28, the Company also recorded operating costs, including interest and depreciation, for the liquidation of the assets of these stores in the amounts of $204 and $1,230.

5. 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 27, 2010, the Company recognized an amount of $5,962 ($6,768 in 2009) which was estimated based on the attainment of specified requirements to receive the rebates.

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

6. Business acquisitions

During the twenty-six-week period ended June 27, 2010, the Company acquired four companies (one company in 2009), operating in the corporate and franchised stores segment, by way of share and asset purchases. Taking direct acquisition costs into account, these acquisitions were for a total consideration of $67,392 ($3,821 in 2009). The Company financed these acquisitions either by an offering of RONA treasury stock or from its existing credit facilities. The results of operations of these companies are consolidated from their date of acquisition.

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

	2010	2009
Accounts receivable	$ 11,228	$ 1,145
Inventory	12,954	1,224
Other current assets	301	–
Fixed assets	1,988	105
Goodwill	48,703	1,357
Intangible assets	418	–
Future income taxes	1,024	–
Current liabilities	(9,193)	(10)
Long-term debt	(31)	–
	67,392	3,821
Less: Issuance of common shares	(35,000)	–
Accrued direct acquisition costs	(438)	–
Balances of purchase prices	(4,401)	(607)
Cash consideration paid	$ 27,553	$ 3,214

The Company expects that an amount of $1,344 ($944 in 2009) of goodwill will be deductible for tax purposes.

7. Impairment of long-term assets

During the twenty-six week period ended June 27, 2010, the Company recorded an impairment charge of $2,000 to reduce the carrying value of a building. This charge is included in depreciation and amortization in the consolidated statement of earnings.

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 had initially expected to dispose of these assets within the next twelve-month period, however, certain assets have been held for sale for over a year. The Company expects to dispose of these in the short term.

During the period ended June 28, 2009, the Company sold two parcels of land and two buildings which had been held for sale and recorded a gain on disposal of $1,521. There were no disposals in the period ended June 27, 2010.

(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 27, 2010	
	Number of shares	Amount
Balance, beginning of period	129,653,383	$ 600,459
Issuance in exchange for common share subscription deposits	250,979	3,842
Issuance under stock option plans	32,775	151
Issuance in exchange for cash	2,037	33
Issuance as payment for an acquisition (Note 6)	2,230,067	35,000
Repurchased and cancelled	(293,200)	(1,419)
Balance before elimination of reciprocal shareholdings	131,876,041	638,066
Elimination of reciprocal shareholdings	(73,334)	(424)
Balance, end of period	131,802,707	637,642
Deposits on common share subscriptions, net of eliminations of joint ventures [(a)]		1,415
		$ 639,057

	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 [(b)]	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 [(a)]		1,889
		$ 578,812

	December 27, 2009	
	Number of shares	Amount
Balance, beginning of year	115,819,699	$ 423,477
Issuance in exchange for common share subscription deposits	328,692	3,744
Issuance under stock option plans	113,775	502
Issuance in exchange for cash [(b)]	13,391,217	172,736
Balance before elimination of reciprocal shareholdings	129,653,383	600,459
Elimination of reciprocal shareholdings	(80,251)	(524)
Balance, end of year	129,573,132	599,935
Deposits on common share subscriptions, net of eliminations of joint ventures [(a)]		3,821
		$ 603,756

(a) 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 27, 2010, the number of outstanding common shares would have increased by 88,276.

(b) On June 2, 2009, the Company issued 11,630,000 common shares at a price of $12.90 per share for total gross proceeds of $150,027. On June 30, 2009, following the exercise of the over-allotment option related to this share issue, the Company issued 1,744,500 common shares at a price of $12.90 per share bringing the aggregate gross proceeds to $172,531 for a total of 13,374,500 common shares.

9. Capital stock (continued)

Normal course issuer bid

On June 16, 2010, the Board of Directors approved a normal course issuer bid to repurchase for cancellation, from June 21, 2010 to June 20, 2011, up to 3,250,000 common shares representing approximately 2.5 % of the common shares outstanding. Under this issuer bid approved by the Toronto Stock Exchange, the repurchases will be made at market prices in accordance with the rules and by-laws of the Toronto Stock Exchange. The Company ceases to consider shares as outstanding on the date of the Company's repurchase of its shares although the actual cancellation of the shares by the transfer agent and registrar occurs on a timely basis on a date shortly thereafter.

For the period ended June 27, 2010, the Company repurchased for cancellation a total of 293,200 common shares for a total cost of $4,785. Of the total cost, $1,419 represents stated capital and $3,153 represents the reduction of the contributed surplus attributable to these common shares. The remaining $213 was charged to retained earnings.

10. Stock-based compensation

Stock option plans

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 could grant options for a maximum of 3,740,000 common shares. As at June 27, 2010, the 2,920,000 options granted have an exercise price of $3.47 and of this number, 1,675,500 options (1,548,500 options in 2009) 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 27, 2010 and June 28, 2009.

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

10. Stock-based compensation (continued)

Stock option plans (continued)

Stock option plan of October 24, 2002

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

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

As at June 27, 2010, the 2,857,452 options (2,475,752 options in 2009) granted have exercise prices ranging from $10.62 to $26.87 (same range in 2009) and of this number, 94,650 options (85,100 options in 2009) have been exercised and 1,026,226 options (632,575 options in 2009) have been forfeited.

The fair value of stock options granted of $5.32 ($4.11 in 2009) was estimated at the grant date using the Black-Scholes option-pricing model on the basis of the following assumptions for the stock options granted during the period:

	2010	2009
Risk-free interest rate	2.9%	1.98 %
Expected volatility in stock price	28.5%	35 %
Expected annual dividend	0%	0 %
Expected life (years)	6	6

Compensation cost expensed with respect to this plan amounts to $303 and $606 for the thirteen and twenty-six-week periods ended June 27, 2010 ($171 and $473 in 2009).

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

10. Stock-based compensation (continued)

Stock option plans (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 27, 2010	
	Options	Weighted average exercise price
Balance, beginning of period	2,966,852	$ 10.47
Granted	381,700	15.44
Exercised	(32,775)	4.22
Forfeited	(334,701)	21.09
Balance, end of period	2,981,076	9.98
Options exercisable, end of period	2,080,969	$ 8.36

	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

	December 27, 2009	
	Options	Weighted average exercise price
Balance, beginning of year	2,981,002	$ 11.46
Granted	516,700	10.62
Exercised	(113,775)	4.11
Forfeited	(417,075)	19.47
Balance, end of year	2,966,852	10.47
Options exercisable, end of year	1,906,969	$ 7.72

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

10. Stock-based compensation (continued)

Stock option plans (continued)

The following table summarizes information relating to stock options outstanding as at June 27, 2010:

Exercise price	Expiration date	Options outstanding	Options exercisable
$ 3.47	January 1, 2012	1,244,500	1,244,500
$ 10.62	March 11, 2019	486,425	121,625
$ 10.86	December 9, 2018	15,000	3,750
$ 14.18	March 1, 2018	195,750	98,550
$ 14.29	December 16, 2013	404,650	404,650
$ 15.44	March 9, 2020	378,400	–
$ 20.27	December 22, 2014	96,000	96,000
$ 21.78	September 1, 2016	17,576	4,394
$ 23.58	March 8, 2017	142,775	107,500
		2,981,076	2,080,969

Share unit plan for officers

The Company offers a share unit plan to officers and key employees of the Company and its subsidiaries under which restricted share units (RSUs) are granted. The RSUs are vested over a maximum term of three years based on performance targets. The RSUs are recognized as a compensation expense on a straight-line basis over the vesting period based on the forecasted attainment of targets. The RSUs are revalued at fair market value at the end of each reporting period until the vesting date using the market price of the Company's common shares. Fair market value changes are accounted for as compensation expense with a corresponding charge to accounts payable and accrued liabilities. RSUs that have been vested will be payable, at the Company's option, in cash or common shares, purchased on the secondary market, with an aggregate value equal to the amount that would have been paid in cash.

	Second Quarter		Year-to-date	
	2010	2009	2010	2009
Number of restricted share units:				
Balance, beginning of period	1,121,340	595,820	682,540	229,360
Granted	–	107,900	438,800	486,150
Forfeited	–	–	–	(11,790)
Balance, end of period	1,121,340	703,720	1,121,340	703,720

The expense recorded in the consolidated statement of earnings for the thirteen and twenty-six-week periods ended June 27, 2010 amounts to $839 and $1,755 ($874 and $126 in 2009).

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

10. Stock-based compensation (continued)

Share unit plan for directors

The Company offers a deferred share unit (DSU) plan for external directors. Under this plan, directors may elect to receive in the form of DSUs any percentage up to 100% of their fees payable in respect of serving as director. When a director elects to participate in this plan, the Company credits the director's account for a number of units equal to the deferred compensation divided by the average closing market price of the common shares of the Company during the five trading days immediately preceding the last day of each reporting period of the Company. Fair market value changes are accounted for as a compensation expense with a corresponding charge to accounts payable and accrued liabilities in the consolidated balance sheet. DSUs granted under this plan will be redeemable and the value of the units will be payable only when the unitholder ceases to be a director.

	Second Quarter		Year-to-date	
	2010	2009	2010	2009
Number of deferred share units:				
Balance, beginning of period	161,108	120,430	149,139	103,421
Directors' compensation	11,390	14,262	23,359	31,271
Units paid	(13,354)	–	(13,354)	–
Balance, end of period	159,144	134,692	159,144	134,692

The expense recorded in the consolidated statement of earnings for the thirteen and twenty-six-week periods ended June 27, 2010 amounts to $227 and $518 ($276 and $429 in 2009).

11. 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 $1,012. 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 $5,612.

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 61% of the cost of the inventories to a maximum of $74,096. 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.

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

12. Employee future benefits

As at June 27, 2010, the Company has seven defined contribution pension plans (nine in 2009) and four defined benefit pension plans (four in 2009). The net pension expense for the benefit plans is as follows:

	Second Quarter		Year-to-date	
	2010	2009	2010	2009
Cost recognized for defined contribution pension plans	$ 2,796	$ 2,436	$ 5,139	$ 4,808
Cost recognized for defined benefit pension plans	330	403	814	805
Net employee future benefit costs	$ 3,126	$ 2,839	$ 5,953	$ 5,613

13. Segmented information

The Company has two reportable segments: distribution and corporate and franchised stores. The distribution segment relates to the supply activities to affiliated, franchised and corporate stores. The corporate and franchised stores segment relates to the retail operations of the corporate stores and the Company's share of the retail operations of the franchised stores in which the Company has an interest.

The accounting policies that apply to the reportable segments are the same as those described in accounting policies. The Company evaluates performance according to earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest, i.e. sales less chargeable expenses. The Company accounts for intersegment operations at fair value.

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

13. Segmented information (continued)

	Second Quarter		Year-to-date	
	2010	2009	2010	2009
Segment sales				
Corporate and franchised stores	$ 1,067,590	$ 1,040,093	$ 1,759,383	$ 1,657,185
Distribution	710,942	693,709	1,255,551	1,170,083
Total	1,778,532	1,733,802	3,014,934	2,827,268
Intersegment sales and royalties				
Corporate and franchised stores	–	–	–	–
Distribution	(380,369)	(363,895)	(665,344)	(611,351)
Total	(380,369)	(363,895)	(665,344)	(611,351)
Sales				
Corporate and franchised stores	1,067,590	1,040,093	1,759,383	1,657,185
Distribution	330,573	329,814	590,207	558,732
Total	1,398,163	1,369,907	2,349,590	2,215,917
Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest				
Corporate and franchised stores	140,100	126,823	190,365	164,825
Distribution	31,018	31,631	51,633	53,048
Total	171,118	158,454	241,998	217,873
Earnings before interest, depreciation and amortization, income taxes and non-controlling interest				
Corporate and franchised stores	109,427	96,846	129,727	106,373
Distribution	25,092	26,030	40,070	41,995
Total	134,519	122,876	169,797	148,368
Acquisition of fixed assets and intangible assets				
Corporate and franchised stores	24,050	36,351	41,038	67,850
Distribution	9,404	13,798	17,389	23,242
Total	33,454	50,149	58,427	91,092
Goodwill				
Corporate and franchised stores	47,500	1,357	48,703	1,357
Distribution	–	–	–	–
Total	$ 47,500	$ 1,357	48,703	1,357
Total assets				
Corporate and franchised stores			2,369,652	2,230,632
Distribution			693,897	645,340
Total			$ 3,063,549	$ 2,875,972

14. Net earnings per share

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

	Second Quarter		Year-to-date	
	2010	2009	2010	2009
Net earnings	$ 67,832	$ 60,796	$ 70,855	$ 58,279
Number of shares (in thousands)				
Weighted average number of shares used to compute basic net earnings per share	130,011.5	119,408.7	129,918.9	117,742.4
Effect of dilutive stock options (a)	1,161.9	1,009.5	1,154.6	1,009.5
Weighted average number of shares used to compute diluted net earnings per share	131,173.4	120,418.2	131,073.5	118,751.9
Net earnings per share - basic	$ 0.52	$ 0.51	$ 0.55	$ 0.50
Net earnings per share - diluted	$ 0.52	$ 0.51	$ 0.54	$ 0.49

(a) As at June 27, 2010, 634,751 common share stock options (1,743,077 options in 2009) were excluded from the calculation of diluted net earnings per share since these options have an antidilutive effect.

15. Comparative figures

Certain comparative figures have been reclassified to conform to the presentation adopted in the period.

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 close to 30,000 employees working under its family of banners in every region of Canada and more than 16 million square feet of retail space, the RONA store network generates over $6 billion in annual retail sales.

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