

Q2-2011



Management's Discussion and Analysis

For the quarter ended June 26, 2011



NEWS RELEASE
FOR IMMEDIATE RELEASE

RONA ANNOUNCES ITS SECOND QUARTER RESULTS

COST REDUCTIONS AND DISCIPLINED BALANCE SHEET MANAGEMENT IN A DIFFICULT MARKET

Boucherville, Quebec, August 10, 2011 – RONA inc. (TSX: RON, RON.PR.A), 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 26, 2011 (second quarter of 2011). All figures in this release are in Canadian dollars and presented according to IFRS accounting standards.

FINANCIAL HIGHLIGHTS

- Compared to the second quarter of 2010:
 - Sales decreased 2.4%, or \$34.2 million: same-store sales were down 9.6%, the contribution from acquisitions was 7.0%
 - EBITDA went from \$133.1 million to \$89.9 million
 - Net income attributable to participating shares of \$37.0 million, compared to \$66.3 million
 - Earnings per share of \$0.28 (diluted), compared to \$0.51 per share (diluted)
 - Cash flow from operations of \$210.6 million, compared to \$71.1 million
- Counting on its strong free cash flow generation, the Corporation's Board of Directors approved the implementation of a normal course issuer bid, subject to the Toronto Stock Exchange approval, at its quarterly meeting

OPERATIONAL HIGHLIGHTS

- Very poor weather conditions across Canada, particularly in April and May; consumers continued to take a careful approach to major renovation projects
- Reduction in comparable retail and distribution inventories of \$15 million, in line with the objective of reducing comparable inventories by \$100 million by the end of 2011
- Net change in working capital of \$134.1 million compared to a negative variation of \$42.2 million in 2010
- CAPEX reduced to level lower than depreciation expense
- Marked growth in penetration of private and controlled brands, from 24% to 28%
- Recruitment of 7 new RONA affiliated dealer stores and 45 new TruServ Canada clients since the start of the year
- Opening of 5 new points of sales specialized in plumbing under the Noble banner in the Commercial and Professional Market division

"For the second quarter in a row, very poor weather conditions, especially in April and May, and fragile consumer confidence significantly impacted our quarterly results," said Robert Dutton, President and CEO of RONA.

"Although the pressure on sales, and the promotional activities demanded by the context affected our earnings, we have managed the situation very prudently. We have, among other things, increased the sales penetration rate of our private-brand and controlled-brand products from 24% to 28%, reduced our same-store administrative expenses by 10% on an annualized basis, reduced our same-store retail and distribution inventories by \$15 million, and been very disciplined in our capital investments, reducing them to less than the Corporation's depreciation expense. These measures will definitely have a positive impact on results in coming quarters," said Mr. Dutton.

Commenting on the outlook, Mr. Dutton noted: "Although there was less pressure on same-store sales in July, especially in Ontario, and sales in the kitchen and construction material categories were up sharply, we expect continued pressure on same-store sales overall until the end of the year in light of the fragile nature of consumer confidence in Canada and consumers' careful approach to major renovation projects. Given the situation, we implemented further efficiency improvement measures in the second quarter, which will permit us to improve the gross margin and reduce our sales and administrative expenses by the end of the fiscal year. We therefore expect to generate net income comparable to last year in the second half of the year."

Mr. Dutton added: "Although the current market conditions pose certain difficulties, I am convinced that we have the best business plan for dealing with the current and future changes in our industry. I also believe that a number of players are in a difficult situation, which will create opportunities for RONA and its affiliated dealers. In fact, our affiliated dealers are already taking steps as they are investing more than \$30 million this year in a number of expansion and improvement projects, which shows their confidence in our development plan. Their sons and daughters are also very positive, as a number of them have used or are planning to use our unique succession-planning program and our store-purchase development fund."

ANALYSIS OF CONSOLIDATED RESULTS

The results discussed and analyzed in this section are for the quarter ended June 26, 2011 and, when compared, are compared to the results for the quarter ended June 27, 2010, unless otherwise indicated.

Revenues

Revenues were \$1,370.0 million, down \$34.2 million, or 2.4%. The decrease stems from a 9.6% decline in same-store sales, including average deflation of 0.8% in forest-product prices. The slowdown in same-store sales was partially offset by acquisitions, which added \$98.6 million in sales to the Corporation's consolidated revenues, for growth of 7.0%.

The corporate stores opened in the past year added \$66.6 million and quickly achieved anticipated returns, generating positive EBITDA in the second quarter. The Commercial and Professional Market division also continued to generate good organic growth in sales. For RONA affiliated dealer stores, recruitment of new dealer-owners and expansion projects by existing dealer-owners helped offset the pressure on same-store sales.

The decrease in same-store sales stemmed from cold and wet weather in April and May all across the country, the decline in residential housing starts, and consumers' careful approach to renovation projects. Market conditions gradually improved during the quarter and in July, but the downward pressure on same-store sales continued. Ontario was less affected by lower sales, whereas in Western Canada, and particularly in British Columbia, the decline had a greater impact. Sales in the kitchen and install services categories were relatively good for the quarter and rose sharply in July. Sales of lumber and construction materials have been particularly weak since the start of the year and only began to strengthen in early July. Since more than 30% of RONA's sales are generated in these categories, the impact on consolidated results in the first three and six months of the year was significant.

Gross margin

Gross margin was 27.70%, down 46 basis points from second quarter 2010, and adjusted gross margin was 29.95%, down 63 basis points. Half of the reduction comes from a higher weighting of distribution sales in the total sales mix; the other half comes from increased promotional activities in the retail sector. Note that inventory quality was maintained even as inventories were reduced through promotional activities. These elements were partly compensated by shrink reduction and increased private and controlled brand sales. A major optimization plan was recently implemented to reverse the downward trend and improve the gross margin in the second half of the year (see *Outlook* for details).

EBITDA

EBITDA was \$89.9 million, compared to \$133.1 million in second quarter 2010, down \$43.2 million, as a result of a \$34.2 million decrease in the Retail and Commercial segment EBITDA and a \$9 million decrease in the Distribution segment EBITDA.

EBITDA margin was down 292 basis points to 6.56% compared to 9.48% in second quarter 2010, reflecting a 293 basis-point decrease for the Retail and Commercial segment and a 277 basis-point decrease for the Distribution segment. In addition to the negative impact of the decrease in same-store sales and gross margin, the EBITDA and EBITDA margin were affected by \$3 million in non-recurring expenses due to workforce reductions during the quarter. Despite these expenses, the Corporation reduced its administrative expenses for regular operations excluding acquisitions in the second quarter. These decreases, and those related to workforce reductions, result from optimization of our network and investments in information technology; on an annualized basis, they will decrease administrative expenses excluding acquisitions by more than 10%. The extra selling, general and administrative expenses related to acquisitions will also decrease as expected synergies are realized.

The EBITDA margin was also affected by new store openings and acquisitions, as the EBITDA margins of the acquired companies were lower than those of RONA's existing operations. The margins are expected to improve as synergies from recent acquisitions are realized in the coming quarters. Higher transportation expenses stemming from the higher gas prices, and temporary efficiency reductions due to lower volumes since the start of the year also had a negative impact on EBITDA and EBITDA margin.

Net income

Net income attributable to owners of RONA inc. amounted to \$39.5 million, compared to \$66.3 million in second quarter 2010, while net earnings attributable to participating shares, after the dividend on preferred shares, amounted to \$37.0 million, compared to \$66.3 million a year earlier. The difference is due to a decrease in operating profit and a slight increase in finance costs, partly offset by a decrease in depreciation and amortization expense and non-controlling interests. Earnings per share were \$0.28 compared to \$0.51 in second quarter 2010 (see *Note 16 of interim consolidated financial statements* for more information).

ANALYSIS OF CONSOLIDATED RESULTS FOR THE SIX-MONTH PERIOD ENDED JUNE 26, 2011

The results discussed and analyzed in this section are for the six-month period ended June 26, 2011 and, when compared, are compared to the results for the six-month period ended June 27, 2010, unless otherwise indicated.

Revenues

Revenues amounted to \$2,288.3 million, down \$72.9 million, or 3.1%. The decrease is due to a 10.8% decline in same-store sales. The slowdown in same-store sales was partly compensated by acquisitions, which added \$167.5 million in sales to the Corporation's consolidated revenues, for growth of 7.1%.

The corporate stores opened in the past year added \$113.4 million and the Commercial and Professional Market division continued to generate good growth in organic sales. The recruitment of new dealer-owners and the expansion projects of existing dealers also permitted the Distribution segment to generate sales growth despite lower same-store sales by affiliate dealer-owners.

The decrease in same-store sales stems from the poor weather conditions in the first half, particularly in March, April and May all across the country, the decline in housing starts, the absence of the home renovation tax credit at the beginning of the year compared to last year, and consumers' careful approach to their renovation projects. Market conditions gradually improved during the quarter, but the downward pressure on same-store sales continued. Ontario was least affected by the drop in sales, while Western Canada, and particularly British Columbia, was most affected. Sales of lumber and construction materials were particularly weak since the start of the year and only started to strengthen in early July, after the close of the second quarter. Since more than 30% of RONA's sales are generated in these categories, the impact on consolidated results in the first six months of the year was significant.

Gross margin

Gross margin was 28.41%, down 59 basis points from the first half of 2010, and adjusted gross margin was 30.33%, down 71 basis points. Half the reduction comes from a higher weighting of distribution sales in the total sales mix; the other half from increased promotional activities in the retail sector. Note that inventory quality was maintained even as inventories were reduced through promotional activities. These elements were partly compensated by shrink reduction and increased private and controlled brand sales. As indicated in the analysis of second quarter results, a major

optimization plan was recently implemented to reverse this trend and improve the gross margin in the second half of the year (see *Outlook* for details).

EBITDA

EBITDA was \$98.0 million, compared to \$167.8 million in the first half of 2010, down \$69.9 million, following a \$57.0 million decrease in EBITDA in the Retail and Commercial segment and a \$12.9 million decrease in EBITDA in the Distribution segment.

EBITDA margin declined 283 basis points to 4.28%, compared to 7.11% in the first half of 2010, reflecting a decrease of 304 basis points for the Retail and Commercial segment and 223 basis points for the Distribution segment. In addition to the negative impact of the decrease in same-store sales and gross margin, the EBITDA and EBITDA margin were affected by non-recurring expenses of \$3 million due to workforce reductions in the first half.

The EBITDA margin was also affected by new store openings and acquisitions, as the EBITDA margins of the acquired companies were lower than those of RONA's existing operations. The margins are expected to improve as synergies are realized in the coming quarters. Higher transportation expenses stemming from the higher gas prices, and higher external warehousing costs given the higher level of inventory at the start of the year also had a negative impact on EBITDA and EBITDA margin.

Net income

Net income attributable to owners of RONA inc. amounted to \$22.7 million, compared to \$69.3 million in the first half of 2010, while net earnings attributable to participating shares, after the dividend on preferred shares, was \$19.5 million, compared to \$69.3 million. The decrease stems from a decline in operating profit and a slight increase in finance costs, partly offset by a decrease in depreciation and amortization expense and non-controlling interests. Earnings per share were \$0.15, compared to \$0.53 in the first half of 2010 (see *Note 16 of interim consolidated financial statements* for more information).

Cash flows and financial position

For the quarter ended June 26, 2011, cash flow from operating activities before net change in working capital, interest received and income taxes paid was \$81.4 million, compared to \$127.3 million in 2010. The decrease is mainly due to lower earnings before income tax expense, which went from \$98.5 million in second quarter 2010 to \$57.1 million in second quarter 2011. The net change in working capital was \$134.1 million in second quarter 2011 compared to a negative change of \$42.2 million in 2010. The strong increase stems mainly from an increase in trade and other payables. Note that despite the higher inventory stemming mainly from acquisitions, new stores and expansion of distribution operations in the Commercial and Professional Market division, same-store inventories for retail stores and distribution were down \$15 million at the end of the second quarter 2011 compared to the same period in 2010. Moreover, since the beginning of the year, the variation of comparable inventories was \$92 million less than the variation in the corresponding period of 2010.

Net of changes in working capital, interest received and income taxes paid, operations generated \$210.6 million in the second quarter 2011, compared to \$71.1 million for the corresponding period in 2010.

The Corporation continued to exercise disciplined financial management and strictly monitored investments in property, plant and equipment. For the second quarter, RONA invested \$26.9 million in property, plant and equipment and intangible assets, \$5.1 million less than the \$32.0 million invested in the second quarter 2010. These investments were used to expand the Corporation's retail network, including finishing the construction of the new 68,000-square-foot RONA store in St.John's, Newfoundland and Labrador, ongoing improvements to information systems in order to improve operational efficiency and maintenance work.

In the first half of 2011, cash flows from operating activities before net change in working capital, interest received and income taxes paid amounted to \$81.9 million compared to \$156.3 million in 2010. The decrease is mainly due to lower earnings before income taxes paid, which declined from \$102.2 million in the first half of 2010 to \$32.6 million in the first half of 2011. The net change in working capital was a negative \$7.9 million in the first half of 2011

compared to a negative \$140.8 million in 2010. This strong increase is mainly due to an increase in trade and other payables in the second quarter and the reduction in comparable inventories.

Net of changes in working capital, interest received and income taxes paid, operations generated \$49.2 million in the first half of 2011, compared to a negative change of \$8.2 million for the same period in 2010.

For the first half of 2011, RONA invested \$49.1 million in property, plant and equipment and intangible assets, \$6.1 million less than in the first half of 2010, when such investments amounted to \$55.2 million. RONA continued to exercise disciplined financial management, strictly monitoring investments in property, plant and equipment such that it now represents a lower amount than depreciation and amortization for the period. These investments were used to expand the Corporation's retail network, including finishing the construction of the new 68,000-square-foot RONA store in St. John's, Newfoundland and Labrador, ongoing improvements to information systems in order to improve operational efficiency and store renovation and maintenance.

RONA's balance sheet remains strong. On June 26, 2011, the Corporation's net indebtedness was only \$261.6 million and the ratio of total net debt to capital was 11.05%, compared to 13.47% on June 27, 2010; the ratio of equity to assets was 63.26%, compared to 62.34%.

DIVIDENDS ON PREFERRED SHARES

At its meeting on August 9, 2011, RONA's Board of Directors declared a quarterly dividend of \$0.3308 per share on cumulative 5-year rate reset Class A preferred shares, series 6. The dividend will be paid on September 30, 2011 to holders of record on September 15, 2011.

DIVIDENDS ON COMMON SHARES

At its meeting on August 9, 2011, the Board of Directors declared a semi-annual dividend of \$0.07 per share on the Corporation's common shares. The dividend will be paid on September 26, 2011 to holders of record on September 10, 2011.

OUTLOOK

Despite the Bank of Canada forecast of 2.6% economic growth in 2011, the housing industry continues to face tough market conditions. After a marked decline in housing starts since the beginning of the year, the situation improved in June and the average selling price of homes continued to climb. Usually this would promote home renovation, however, given consumers' high level of debt and current inflationary pressures, especially on gas prices, in general consumers are still being careful and selective in their discretionary spending. Furthermore, the Conference Board of Canada noted that the Consumer Confidence Index fell 2.5 points in June to 83.1, following upon a 2.1 points drop in May.

Given these factors and their influence on the renovation projects of Canadian consumers, the following measures were implemented by RONA starting in the first quarter to mitigate negative impacts on the Corporation's financial results:

- intensification of the PEP program with an emphasis on supply chain management and store productivity;
- a \$25 million reduction in CAPEX, along with a strong focus on optimizing the existing network across the country through renovation, consolidation and information technology;
- disposal of non-core land and assets; and
- reduction in administrative expenses.

In the second quarter the Corporation:

- reduced same-store retail and distribution inventory by \$15 million compared to the same period a year ago. This is in line with the goal of reducing inventory by \$100 million by the end of the year;
- maintained strict control of investments in property, plant and equipment by limiting such investments to close to \$50 million for the first half of 2011, which is less than the depreciation and amortization expense for the period. The Corporation expects to maintain its CAPEX at a level in line with the capital investment for the second half also;
- sold several pieces of land and secondary assets, as well as a lot in Beloeil, Quebec to one of our RONA dealers;

- incurred a non-recurring expense of \$3 million related to workforce reduction. Despite these unusual expenses, the Corporation reduced its administrative expense for regular operations excluding acquisitions in the quarter. These decreases, and those related to workforce reductions, result from optimization of our network and investments in information technology; on an annualized basis they will reduce administrative expenses excluding acquisitions by more than 10%.

These measures will be ongoing during the year to mitigate the ongoing pressure on same-store sales anticipated by the Corporation given the low level of consumer confidence and consumers' careful approach to major renovation projects.

In addition, starting in the second quarter, RONA implemented further optimization measures which will enable the Corporation to reverse the downward pressure on gross margin and reduce selling and administrative expenses in the second half of fiscal 2011.

The Corporation is managing this situation carefully and will continue to supply its affiliate dealer-owners with all the tools and support they need to embrace consolidation opportunities stemming from market conditions.

The above measures should enable RONA to keep its investment grade credit profile even as it continues to improve its competitive position in an industry in transformation. RONA management is confident that it has the most effective business model and financial flexibility to increase return on capital and take advantage of the current and future changes in its industry. Finally, counting on its strong free cash flow generation, the Corporation's Board of Directors approved the implementation of a normal course issuer bid, subject to the Toronto Stock Exchange approval, at its quarterly meeting.

SUSTAINABILITY

Sustainable development is a core component of RONA's strategic plan. Key programs have been developed and introduced in response to the Corporation's objectives. In the past few years, RONA has undertaken a number of sustainability initiatives dealing with its products, procurement policies, environmental footprint and corporate governance. Here are new initiatives pursued in the first half of 2011:

- In the second quarter, RONA, in partnership with Hydro-Quebec, les Rôtisseries St-Hubert, METRO and l'Agence métropolitaine de transport (AMT), announced that it was involved in setting up the first network of public charging stations for plug-in electric cars in Canada, the "Electric Circuit." Using clean and renewable energy, the first charging stations will become available in early 2012 at the business locations of the founding partners and at dedicated parking spots provided by the AMT. Electric-car drivers will be able to travel knowing that they can charge up at a public station when they need to. Initially, the Electric Circuit will provide one hundred 240-volt stations. Quick-charging (400V) stations will follow in 2012 once the certification process is completed in Canada.
- Three new stores opened during the first quarter: a new 102,000-square-foot Réno-Dépôt store in Vaudreuil-Dorion, Quebec, a new 100,000-square-foot Réno-Dépôt store in the Quebec City borough of Sainte-Foy and a new 52,000-square-foot store under the TOTEM banner in Edmonton, Alberta. These stores were built to meet the criteria of the LEED system (Leadership in Energy and Environmental Design) for new buildings.
- In March, the Maple Leaf Sports & Entertainment's (MLSE) Team Up Foundation, in collaboration with the City of Mississauga unveiled plans to refurbish the Burnhamthorpe Community Centre's outdoor rink. The MLSE Team Up Foundation, with the support of MLSE's Corporate Partner RONA, is investing \$25,000 in significant upgrades and improvements to the rink. This marks the seventh such partnership involving RONA. Work on the arena will be completed in the spring with supplies donated by the Corporation. This is a continuation of RONA's long-standing commitment to Canadian sports, both professional and amateur. RONA was a National Partner of the Vancouver 2010 Olympic and Paralympic Games. As well, it will be a National Partner of the Canadian Olympic and Paralympic Teams through the London 2012 Summer Games.

ADDITIONAL INFORMATION

The *Management's Discussion and Analysis (MD&A)* and unaudited interim consolidated financial statements with notes for the second quarter of 2011 can be found in the "Investor Relations" section of the Corporation's website at www.rona.ca and on the SEDAR website at www.sedar.com. The Corporation's Annual Report, along with other information about RONA, including its Annual Information Form, can also be found on the RONA and SEDAR websites.

TELEPHONE CONFERENCE WITH THE FINANCIAL COMMUNITY

On Wednesday, August 10, 2011, at 11:00 a.m. (EST), RONA will hold a telephone conference for the financial community. To join the conference, please call 416-340-2216 or 1 866 226-1792. To listen to the call online, please go to <http://webcasts.pgm.net/client/rona/event/151/en/>.

NON-GAAP PERFORMANCE MEASURES

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

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

The following table presents a reconciliation of these two measures to IFRS:

Reconciliation of non-GAAP measures (Unaudited, in thousands of dollars, except margins in %)	Quarters ended		\$ change from 2010	% change from 2010
	June 26, 2011	June 27, 2010		
Revenues	1,370,046	1,404,219	(34,173)	(2.4%)
Cost of sales	(990,600)	(1,008,839)	18,239	1.8%
Gross profit	379,446	395,380	(15,934)	(4.0%)
Gross margin (gross profit/revenues)	27.70%	28.16%	-	-46 b.p.
Adjustments for network support ⁽¹⁾	30,853	34,052	(3,199)	(9.4%)
Adjusted gross profit	410,299	429,432	(19,133)	(4.5%)
Adjusted gross margin (adjusted gross profit/revenues)	29.95%	30.58%	-	-63 b.p.
Selling, general and administrative expenses	(320,412)	(296,380)	(24,032)	(8.1%)
Leases	40,236	36,663	3,573	9.7%
EBITDA before leases	130,123	169,715	(39,592)	(23.3%)
EBITDA margin before leases (EBITDA before leases/revenues)	9.50%	12.09%	-	-259 b.p.
EBITDA	89,887	133,052	(43,165)	(32.4%)
EBITDA margin (EBITDA/revenues)	6.56%	9.48%	-	-292 b.p.
Finance income	1,340	1,253	87	6.9%
Amortization, depreciation and impairment of non-financial assets	(26,062)	(28,511)	2,449	8.6%
Operating profit	62,485	103,288	(40,803)	(39.5%)

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

Reconciliation of non-GAAP measures

Year to date

(Unaudited, in thousands of dollars, except margins in %)	Year to date		\$ change from 2010	% change from 2010
	2011	2010		
Revenues	2,288,257	2,361,139	(72,882)	(3.1%)
Cost of sales	(1,638,054)	(1,676,484)	38,430	2.3%
Gross profit	650,203	684,655	(34,452)	(5.0%)
Gross margin (gross profit/revenues)	28.41%	29.00%	-	-59 b.p.
Adjustments for network support ⁽¹⁾	43,748	48,246	(4,498)	(9.3%)
Adjusted gross profit	693,951	732,901	(38,950)	(5.3%)
Adjusted gross margin (adjusted gross profit/revenues)	30.33%	31.04%	-	-71 b.p.
Selling, general and administrative expenses	(596,001)	(565,091)	(30,910)	(5.5%)
Leases	81,816	72,552	9,264	12.8%
EBITDA before leases	179,766	240,362	(60,596)	(25.2%)
EBITDA margin before leases (EBITDA before leases/revenues)	7.86%	10.18%	-	-232 b.p.
EBITDA	97,950	167,810	(69,860)	(41.6%)
EBITDA margin (EBITDA/revenues)	4.28%	7.11%	-	-283 b.p.
Finance income	2,711	2,267	444	19.6%
Amortization, depreciation and impairment of non-financial assets	(52,359)	(54,078)	1,719	3.2%
Operating profit	42,880	111,465	(68,585)	(61.5%)

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

FORWARD-LOOKING STATEMENTS

This *News Release* includes "forward-looking statements" that involve risks and uncertainties. All statements other than statements of historical facts included in this *News Release*, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the Corporation 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 Corporation's actual results to differ from current expectations, please also refer to the Corporation's public filings available at www.sedar.com and www.rona.ca. In particular, further details and descriptions of these and other factors are disclosed in the MD&A under the "Risks and uncertainties" section and in the "Risk factors" section of the Corporation's current Annual Information Form.

The forward-looking statements in this *News release* reflect the Corporation's expectations as at August 10, 2011, and are subject to change after this date. The Corporation expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

ABOUT RONA

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of more than 950 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 17 million square feet of retail space, the RONA store network generates over \$6 billion in annual retail sales. For more information, please visit www.rona.ca.

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Management's Discussion and Analysis for Second Quarter 2011

13-week and 26-week periods ended June 26, 2011

RONA inc. ("RONA," or the "Corporation") is Canada's leading retailer and distributor of home improvement, hardware and gardening products. The Corporation operates or serves a network of more than 950 corporate, franchise and affiliate stores, as well as 17 hardware and building materials distribution centres.

RONA revenues include:

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

FINANCIAL STATEMENTS

This *Management's Discussion and Analysis* (MD&A) should be read in conjunction with the Corporation's unaudited interim consolidated financial statements and related notes for the 13-week and 26-week periods ended June 26, 2011. These interim consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim financial reporting*. In May 2011, the Corporation filed its interim consolidated financial statements for the quarter ended March 27, 2011 disclosing for the first time its results and financial position under International Financial Reporting Standards ("IFRS"). The Corporation's interim financial statements for the quarter ended March 27, 2011, and the current interim financial statements for the quarter ended June 26, 2011 were prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards* and in accordance with accounting policies that the Corporation intends to adopt in its financial statements for the year ended December 25, 2011. The monetary amounts in these financial statements are expressed in Canadian dollars, unless otherwise indicated. RONA has filed these consolidated financial statements with the Canadian Securities Administrators and they can be viewed online at www.sedar.com or on RONA's website at www.rona.ca.

NON-GAAP PERFORMANCE MEASURES

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

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

The following table presents a reconciliation of these two measures to IFRS:

Reconciliation of non-GAAP measures (Unaudited, in thousands of dollars, except margins in %)	Quarters ended		\$ change from 2010	% change from 2010
	June 26, 2011	June 27, 2010		
Revenues	1,370,046	1,404,219	(34,173)	(2.4%)
Cost of sales	(990,600)	(1,008,839)	18,239	1.8%
Gross profit	379,446	395,380	(15,934)	(4.0%)
Gross margin (gross profit/revenues)	27.70%	28.16%	-	-46 b.p.
Adjustments for network support ⁽¹⁾	30,853	34,052	(3,199)	(9.4%)
Adjusted gross profit	410,299	429,432	(19,133)	(4.5%)
Adjusted gross margin (adjusted gross profit/revenues)	29.95%	30.58%	-	-63 b.p.
Selling, general and administrative expenses	(320,412)	(296,380)	(24,032)	(8.1%)
Leases	40,236	36,663	3,573	9.7%
EBITDA before leases	130,123	169,715	(39,592)	(23.3%)
EBITDA margin before leases (EBITDA before leases/revenues)	9.50%	12.09%	-	-259 b.p.
EBITDA	89,887	133,052	(43,165)	(32.4%)
EBITDA margin (EBITDA/revenues)	6.56%	9.48%	-	-292 b.p.
Finance income	1,340	1,253	87	6.9%
Amortization, depreciation and impairment of non-financial assets	(26,062)	(28,511)	2,449	8.6%
Operating profit	62,485	103,288	(40,803)	(39.5%)

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

Reconciliation of non-GAAP measures (Unaudited, in thousands of dollars, except margins in %)	Year to date		\$ change from 2010	% change from 2010
	2011	2010		
Revenues	2,288,257	2,361,139	(72,882)	(3.1%)
Cost of sales	(1,638,054)	(1,676,484)	38,430	2.3%
Gross profit	650,203	684,655	(34,452)	(5.0%)
Gross margin (gross profit/revenues)	28.41%	29.00%	-	-59 b.p.
Adjustments for network support ⁽¹⁾	43,748	48,246	(4,498)	(9.3%)
Adjusted gross profit	693,951	732,901	(38,950)	(5.3%)
Adjusted gross margin (adjusted gross profit/revenues)	30.33%	31.04%	-	-71 b.p.
Selling, general and administrative expenses	(596,001)	(565,091)	(30,910)	(5.5%)
Leases	81,816	72,552	9,264	12.8%
EBITDA before leases	179,766	240,362	(60,596)	(25.2%)
EBITDA margin before leases (EBITDA before leases/revenues)	7.86%	10.18%	-	-232 b.p.
EBITDA	97,950	167,810	(69,860)	(41.6%)
EBITDA margin (EBITDA/revenues)	4.28%	7.11%	-	-283 b.p.
Finance income	2,711	2,267	444	19.6%
Amortization, depreciation and impairment of non-financial assets	(52,359)	(54,078)	1,719	3.2%
Operating profit	42,880	111,465	(68,585)	(61.5%)

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

FISCAL YEAR

RONA's fiscal year ends on the last Sunday of each year and usually has 52 weeks. For interim disclosure purposes, quarters end on the last Sunday of March, June, September and December respectively, and have 13 weeks. The fiscal years ended December 27, 2009 and December 26, 2010, include 52 weeks of operations.

UPDATE ON THE CORPORATION'S STRATEGIC ORIENTATION

On February 27, 2008, RONA released its strategic plan for 2008-2011. The plan had 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 management made a commitment to provide quarterly updates on the plan's progress in its Management's Discussion and Analysis, as well as an annual update in its annual report and at the annual shareholders' meeting. The information below is an update on the progress of Phase 2 since the start of fiscal 2011.

1. Customer growth

Customer growth will be stimulated by numerous initiatives to improve the customer experience – innovative store concepts, new product categories, new private-brand and controlled-brand products, new tools and programs to improve customer loyalty, and new training programs for store employees.

- In spring 2010, RONAdvantages was improved and made into a permanent program that is now one of the most advantageous customer programs in the industry in Canada. The program is linked with the RONA consumer credit card and usage continues to grow. Since the start of the year, sales related to the program have risen 33% over last year. Cardholders are our most loyal customers; they generally visit our stores more frequently and have a higher basket size than other customers. The new program has brought RONA new customers and definitely helped increase market share in a difficult period. The program offers annual discounts in the form of RONA gift cards, which encourage customers to return to the store again to make purchases. On average, consumers spend 1.7 times the value of their gift card when they visit a RONA store.
- RONA's private-brand and controlled-brand product sales for the year continued to rise, bringing the penetration level of these products to 28% at the end of June, up from 24% at the end of 2010.
- Since the start of the year, two stores underwent major renovations, one in Mascouche and one in Anjou, Quebec. These projects involved an investment of about \$7 million for the two stores, totalling 290,000 square feet. A 100,000-square-foot RONA L'entrepôt store in Gatineau, belonging to the Lacasse family, was renovated; this project involved an investment of more than \$5 million. Three existing RONA stores in the cities of Scarborough and Markham, Ontario combined their operations into a single retail force in order to better deliver a full range of quality products and services to the local communities.

2. Construction of new stores

RONA has several different store concepts to meet the specific needs of the communities it serves, big or small, urban or rural. Whether this means a totally new store, the expansion of an existing store or a transformation, RONA has the right concept for the situation.

- Since the beginning of 2011, the construction of five new stores, four corporate and one franchise, have added more than 350,000 square feet to the network:
 - At the end of the second quarter, a 68,000-square-foot RONA proximity store was opened in St. John's, Newfoundland and Labrador, representing an investment of about \$20 million.
 - During the first quarter, the following stores were opened:
 - A new 102,000-square-foot Réno-Dépôt store was opened in Vaudreuil-Dorion, Quebec. The new store represents an investment of close to \$25 million and was built to meet the criteria of the LEED system (Leadership in Energy and Environmental Design) for new buildings.

- A new 100,000-square-foot Réno-Dépôt store was opened in the Quebec City borough of Sainte-Foy. This is the third store under this banner to serve the Quebec City region. The new retail outlet represents an investment of more than \$20 million and was built to meet the criteria of the LEED system for new buildings.
- A new 52,000-square-foot store under the TOTEM banner was opened in Edmonton, Alberta. The new location represents an investment of close to \$20 million in the community and was built to meet the criteria of the LEED system for new buildings.
- A new 35,000-square-foot store was opened in Repentigny, representing an investment of \$16 million. It is owned jointly by RONA and the Prud'homme family, who have more than 50 years of retail experience in the Lanaudière region.
- In the second quarter, the Commercial and Professional Market division opened three new points of sales specialized in plumbing under the Noble banner, two in Ontario and one in Quebec. Two Noble kiosks were also opened within the existing points of sales of HVAC specialist Don Park in Ontario.

3. Development of the affiliated dealer network

In addition to recruiting new dealers to the group and helping existing dealers to improve and expand their stores, a key element of development in this area is RONA's succession-planning program. It was designed to secure RONA's leadership in the market and sustain the growth of its network. The Corporation's new succession-planning program will help RONA attract next-generation dealer-owners and continue to be the company that offers independent dealer-owners in Canada the best development support.

- Since the start of the year, seven new affiliated dealer stores were successfully recruited to the RONA network: four in Quebec, one in Ontario and two in British Columbia. These new dealers will add close to \$25 million in annual retail sales to the network. A dealer in Quebec also acquired two sales outlets, representing close to \$2 million in annual sales. Matériaux Décoren, an affiliate store, was strategically relocated to a new building on the main commercial strip of Sainte-Marie-de-Beauce, Quebec. The store, owned by RONA affiliate dealer-owners Nathalie Lagrange and Marc-André Drouin, has doubled in size from 7,000 to 15,000 square feet.
- Since the start of the fiscal year, 45 new customers have joined the TruServ Canada network and more than 240 RONA affiliate dealer-owners have been organized to buy through the TruServ Canada distribution network.
- RONA dealer-owners continued to improve their competitive positions by carrying out expansion and renovation projects during the quarter. Some 90 projects are underway, involving dealer investments of close to \$30 million in fiscal 2011.
- RONA's innovative succession-planning program is gaining traction. More than 20 projects are currently being reviewed by our young dealers, with possible submission to the selection committee in coming quarters. Also, the third annual President's Camp will be held in late August in Montreal, Quebec. It will host some 60 young entrepreneurs representing RONA network successors in operations and administration.

4. Acquisitions

Through targeted acquisitions in retail, distribution and commercial and professional sectors, the Corporation will quickly grow different aspects of its operations and capabilities, such as market coverage, brand extension, leverage of existing infrastructure, product offerings, and purchasing power, while also reducing the cyclical nature of the retail business.

- Given the more difficult market conditions that have prevailed since the start of 2011 and as stated in the first quarter MD&A, RONA has taken a more selective approach to acquisitions, placing greater emphasis on short-term return on investment;
 - Early in the second quarter, on April 11, RONA acquired RONA dealer-owner Duncan Pacific, in British Columbia. This dealer has four sales outlets with large lumberyards that are

strategically located in Duncan, Nanaimo, Campbell River and Cobble Hill. The company will be quickly integrated into RONA's corporate store network and has strong growth potential.

- In January 2011, RONA acquired the assets of La Boutique Plomberie Décoration 25 Inc., which specializes in the retail sales of plumbing products and fixtures and has one retail store and one parts outlet in St-Eustache, Quebec. The company has over 25 years' experience in the specialized plumbing market and has an impressive inventory to supply projects for all types of consumers, specialized contractors, plumbers and general contractors. It has a 15,000-square-foot showroom. The business is in a good financial position and will quickly contribute to the Corporation's results.

ANALYSIS OF CONSOLIDATED RESULTS

The results discussed and analyzed in this section are for the quarter ended June 26, 2011 and, when compared, are compared to the results for the quarter ended June 27, 2010, unless otherwise indicated.

Economic conditions

In its Monetary Policy Report of June 2011, the Bank of Canada said that global economic expansion is proceeding broadly as projected in April, with modest growth in major advanced economies and robust expansions in emerging economies. The U.S. economy has grown at a slower pace than expected. It continues to be restrained by the consolidation of household balance sheets and slow growth in employment. While growth in core Europe has been stronger than expected, necessary fiscal austerity measures in a number of countries will restrain growth over the next quarters. In contrast, growth in emerging-market economies, particularly China, remains very strong. As a consequence, commodity prices are expected to remain at elevated levels. These high prices, combined with persistent excess demand in major emerging-market economies, are contributing to broader global inflationary pressures.

In Canada, the economic expansion is proceeding largely as projected, although the expected rotation of demand is somewhat slower than had been anticipated. Following an anticipated slowdown in growth during the second quarter due to temporary supply-chain disruptions and the impact of higher energy prices on consumption, the Bank expects growth in Canada to re-accelerate in the second half of 2011. Over the projection horizon, business investment is expected to remain strong, household spending to grow more in line with disposable income and net exports to become more supportive of growth. Overall, the Bank projects the economy will expand by 2.8% in 2011, 2.6% in 2012 and 2.1% in 2013. Reflecting all of these factors, the Bank maintained the target for the overnight rate at 1%. To the extent that the expansion continues and the current material excess supply in the economy is gradually absorbed, some of the considerable monetary policy stimulus currently in place will be withdrawn, consistent with achieving the 2% inflation target.

In the housing industry, year over year, new starts were down 27% in April, 22.7% in May and 7% in June; housing resales were down 14.7% in April, up 2.7% in May and up 10.8% in June. The average selling price of homes continued to rise, up 8% in April, 8.6% in May and 8.7% in June. Despite a marked decline in housing starts during the quarter, the situation improved in June and the average selling price of homes continued to climb. Usually this would lead to home renovation, however, given the high level of consumer debt and current inflationary pressures, especially in energy prices, consumers are still being careful and selective in their discretionary spending. The Conference Board of Canada noted that in June the Index of Consumer Confidence fell 2.5 points, to 83.1, which followed upon a 2.1 points drop in May.

Revenues

Revenues were \$1,370.0 million, down \$34.2 million, or 2.4%. The decrease stems from a 9.6% decline in same-store sales, including average deflation of 0.8% in forest-product prices. The slowdown in same-store sales was partially offset by acquisitions, which added \$98.6 million in sales to the Corporation's consolidated revenues, for growth of 7.0%.

The corporate stores opened in the past year added \$66.6 million and quickly achieved anticipated returns, generating positive EBITDA in the second quarter. The Commercial and Professional Market division also continued to generate good organic growth in sales. For RONA affiliated dealer stores, recruitment of new dealer-owners and expansion projects by existing dealer-owners helped offset the pressure on same-store sales.

The decrease in same-store sales stemmed from cold and wet weather in April and May all across the country, the decline in residential housing starts, and consumers' careful approach to renovation projects. Market conditions gradually improved during the quarter and in July, but the downward pressure on same-store sales continued. Ontario was less affected by lower sales, whereas in Western Canada, and particularly in British Columbia, the decline had a greater impact. Sales in the kitchen and install services categories were relatively good for the quarter and rose sharply in July. Sales of lumber and construction materials have been particularly weak since the start of the year and only began to strengthen in early July. Since more than 30% of RONA's sales are generated in these categories, the impact on consolidated results in the first three and six months of the year was significant.

Gross margin

Gross margin was 27.70%, down 46 basis points from second quarter 2010, and adjusted gross margin was 29.95%, down 63 basis points. Half of the reduction comes from a higher weighting of distribution sales in the total sales mix; the other half comes from increased promotional activities in the retail sector. Note that inventory quality was maintained even as inventories were reduced through promotional activities. These elements were partly compensated by shrink reduction and increased private and controlled brand sales. A major optimization plan was recently implemented to reverse the downward trend and improve the gross margin in the second half of the year (see *Outlook* for details).

EBITDA

EBITDA was \$89.9 million, compared to \$133.1 million in second quarter 2010, down \$43.2 million, as a result of a \$34.2 million decrease in the Retail and Commercial segment EBITDA and a \$9 million decrease in the Distribution segment EBITDA.

EBITDA margin was down 292 basis points to 6.56% compared to 9.48% in second quarter 2010, reflecting a 293 basis-point decrease for the Retail and Commercial segment and a 277 basis-point decrease for the Distribution segment. In addition to the negative impact of the decrease in same-store sales and gross margin, the EBITDA and EBITDA margin were affected by \$3 million in non-recurring expenses due to workforce reductions during the quarter. Despite these expenses, the Corporation reduced its administrative expenses for regular operations excluding acquisitions in the second quarter. These decreases, and those related to workforce reductions, result from optimization of our network and investments in information technology; on an annualized basis, they will decrease administrative expenses excluding acquisitions by more than 10%. The extra selling, general and administrative expenses related to acquisitions will also decrease as expected synergies are realized.

The EBITDA margin was also affected by new store openings and acquisitions, as the EBITDA margins of the acquired companies were lower than those of RONA's existing operations. The margins are expected to improve as synergies from recent acquisitions are realized in the coming quarters. Higher transportation expenses stemming from the higher gas prices, and temporary efficiency reductions due to lower volumes since the start of the year also had a negative impact on EBITDA and EBITDA margin.

Finance costs and income

Finance costs were \$6.8 million, up \$0.7 million, or 11.3% over the second quarter 2010. This increase stems from a higher average debt level for the quarter, despite a significant decrease at the end of the quarter. Finance income remained relatively stable at \$1.3 million.

Net income

Net income attributable to owners of RONA inc. amounted to \$39.5 million, compared to \$66.3 million in second quarter 2010, while net earnings attributable to participating shares, after the dividend on preferred shares, amounted to \$37.0 million, compared to \$66.3 million a year earlier. The difference is due to a decrease in operating profit and a slight increase in finance costs, partly offset by a decrease in depreciation and amortization expense and non-controlling interests. Earnings per share were \$0.28 compared to \$0.51 in second quarter 2010 (see *Note 16 of interim consolidated financial statements* for more information).

ANALYSIS OF SEGMENT RESULTS

The results discussed and analyzed in this section are for the quarter ended June 26, 2011, and, when compared, are compared to the results for the quarter ended June 27, 2010, unless otherwise indicated.

RONA has two reportable segments: 1) Distribution and 2) Retail and Commercial.

The Retail and Commercial segment consists of RONA's corporate and franchise stores ("Retail") and its Commercial and Professional Market division ("Commercial").

Key segment figures (in thousands of dollars)	Quarter ended		\$ change from 2010	% change from 2010
	June 26, 2011	June 27, 2010		
Segment revenues				
Retail and Commercial	1,026,419	1,067,360	(40,941)	(3.8%)
Distribution	694,027	724,813	(30,786)	(4.2%)
Total	1,720,446	1,792,173	(71,727)	(4.0%)
Intersegment revenues and royalties				
Retail and Commercial	-	-	-	-
Distribution	(350,400)	(387,954)	37,554	9.7%
Total	(350,400)	(387,954)	37,554	9.7%
Revenues				
Retail and Commercial	1,026,419	1,067,360	(40,941)	(3.8%)
Distribution	343,627	336,859	6,768	2.0%
Total	1,370,046	1,404,219	(34,173)	(2.4%)
EBITDA				
Retail and Commercial	73,281	107,454	(34,173)	(31.8%)
Distribution	16,606	25,598	(8,992)	(35.1%)
Total	89,887	133,052	(43,165)	(32.4%)
EBITDA margin				
Retail and Commercial	7.14%	10.07%	-	-293 b.p.
Distribution	4.83%	7.60%	-	-277 b.p.
Total	6.56%	9.48%	-	-292 b.p.

Retail and Commercial

Revenues amounted to \$1,026.4 million, down \$40.9 million, or 3.8%. Same-store sales were down 9.6%, including average deflation of 0.8% on forest products. The decline in same-store sales was partially neutralized by acquisitions, steady sales growth in the Commercial and Professional Market division and new store openings.

As noted in the Analysis of Consolidated Results, the decrease in same-store sales was due to the cold and wet weather in April and May all across the county, the decline in housing starts, the liquidation of seasonal items and consumers' careful approach to their renovation projects. Market conditions gradually improved during the quarter and in July, but the downward pressure on same-store sales continued. These conditions had the least impact in Ontario,

and the most impact in Western Canada. Sales of lumber and construction materials were particularly weak since the start of the year and only started to strengthen in early July, after the close of the second quarter. Given that more than 30% of RONA's sales are generated in these categories, the impact on consolidated results in the first three months and six months of the year was significant.

Retail consumers continued to be prudent and selective in their spending as they attempted to lower their personal debt levels and absorb price increases for gas and food. This behaviour, combined with the above-mentioned elements, resulted in less traffic through the stores and lower weekend and install sales. However, the average size of the basket was much less impacted than traffic as merchandising and in-store service initiatives, such as the RONAAdvantages program, the fast-growing and highly-recognized private and controlled brands, and the unique RONA ECO product line, are working well. The penetration rate for private and controlled brands rose from 24% at the end of 2010 to 28% at the close of second quarter 2011.

EBITDA was \$73.3 million, down \$34.2 million, and the EBITDA margin decreased by 293 basis points, to 7.14%. In addition to the negative impact of lower same-store sales, EBITDA and EBITDA margin were affected by new store openings and acquisitions, as the EBITDA margins of the new stores and acquired companies were lower than those of RONA's existing retail and commercial operations. Margins are expected to improve when synergies from recent acquisitions are realized. These downward pressures on margin were partly offset by reductions in some variable expenses.

Distribution

Net of intersegment activities, distribution revenues increased 2.0%, or \$6.8 million, to \$343.6 million. While affiliated dealers faced the same pressures as the retail division with respect to same-store sales, the decline in revenues resulting from these pressures, combined with 1.6% deflation on forest product costs, were more than offset by the acquisition of TruServ Canada, a company with 650,000 square feet of warehousing and distribution space and generating annual hardware distribution sales of over \$100 million; by new dealers; and by existing dealer expansion projects.

As for the retail division, lumber and building materials categories were particularly weak during the quarter.

The distribution segment generated \$16.6 million in EBITDA, a decrease of \$9.0 million, or 35.1%. EBITDA margin fell 277 basis points, to 4.83%. While revenues were up, EBITDA and EBITDA margin were negatively affected by higher transportation costs related to higher gas prices, as well as temporary efficiency reductions due to the significant decrease in volume since the start of the fiscal year. The EBITDA margin was also adversely affected by the acquisition of TruServ Canada, which had a lower EBITDA margin than RONA's distribution operations. This margin is expected to improve when synergies are realized in the coming quarters.

ANALYSIS OF CONSOLIDATED RESULTS FOR THE SIX-MONTH PERIOD ENDED JUNE 26, 2011

The results discussed and analyzed in this section are for the six-month period ended June 26, 2011 and, when compared, are compared to the results for the six-month period ended June 27, 2010, unless otherwise indicated.

Revenues

Revenues amounted to \$2,288.3 million, down \$72.9 million, or 3.1%. The decrease is due to a 10.8% decline in same-store sales. The slowdown in same-store sales was partly compensated by acquisitions, which added \$167.5 million in sales to the Corporation's consolidated revenues, for growth of 7.1%.

The corporate stores opened in the past year added \$113.4 million and the Commercial and Professional Market division continued to generate good growth in organic sales. The recruitment of new dealer-owners and the expansion projects of existing dealers also permitted the Distribution segment to generate sales growth despite lower same-store sales by affiliate dealer-owners.

The decrease in same-store sales stems from the poor weather conditions in the first half, particularly in March, April and May all across the country, the decline in housing starts, the absence of the home renovation tax credit at the beginning of the year compared to last year, and consumers' careful approach to their renovation projects. Market conditions gradually improved during the quarter, but the downward pressure on same-store sales continued. Ontario was least affected by the drop in sales, while Western Canada, and particularly British Columbia, was most affected. Sales of lumber and construction materials were particularly weak since the start of the year and only started to strengthen in early July, after the close of the second quarter. Since more than 30% of RONA's sales are generated in these categories, the impact on consolidated results in the first six months of the year was significant.

Gross margin

Gross margin was 28.41%, down 59 basis points from the first half of 2010, and adjusted gross margin was 30.33%, down 71 basis points. Half the reduction comes from a higher weighting of distribution sales in the total sales mix; the other half from increased promotional activities in the retail sector. Note that inventory quality was maintained even as inventories were reduced through promotional activities. These elements were partly compensated by shrink reduction and increased private and controlled brand sales. As indicated in the analysis of second quarter results, a major optimization plan was recently implemented to reverse this trend and improve the gross margin in the second half of the year (see *Outlook* for details).

EBITDA

EBITDA was \$98.0 million, compared to \$167.8 million in the first half of 2010, down \$69.9 million, following a \$57.0 million decrease in EBITDA in the Retail and Commercial segment and a \$12.9 million decrease in EBITDA in the Distribution segment.

EBITDA margin declined 283 basis points to 4.28%, compared to 7.11% in the first half of 2010, reflecting a decrease of 304 basis points for the Retail and Commercial segment and 223 basis points for the Distribution segment. In addition to the negative impact of the decrease in same-store sales and gross margin, the EBITDA and EBITDA margin were affected by non-recurring expenses of \$3 million due to workforce reductions in the first half.

The EBITDA margin was also affected by new store openings and acquisitions, as the EBITDA margins of the acquired companies were lower than those of RONA's existing operations. The margins are expected to improve as synergies are realized in the coming quarters. Higher transportation expenses stemming from the higher gas prices, and higher external warehousing costs given the higher level of inventory at the start of the year also had a negative impact on EBITDA and EBITDA margin.

Finance costs and income

Finance costs amounted to \$13.0 million, up \$1.6 million, or 13.5% over the first half of 2010. The increase stems from a higher average debt level for the first half, despite a significant decrease at the end of the first six months. Finance income rose \$0.4 million, from \$2.3 million in the first half of 2010 to \$2.7 million in 2011.

Net income

Net income attributable to owners of RONA inc. amounted to \$22.7 million, compared to \$69.3 million in the first half of 2010, while net earnings attributable to participating shares, after the dividend on preferred shares, was \$19.5 million, compared to \$69.3 million. The decrease stems from a decline in operating profit and a slight increase in finance costs, partly offset by a decrease in depreciation and amortization expense and non-controlling interests. Earnings per share were \$0.15, compared to \$0.53 in the first half of 2010 (see *Note 16 of interim consolidated financial statements* for more information).

ANALYSIS OF SEGMENT RESULTS FOR THE SIX-MONTH PERIOD ENDED JUNE 26, 2011

The results discussed and analyzed in this section are for the six-month period ended June 26, 2011 and, when compared, are compared to the results for the six-month period ended June 27, 2010, unless otherwise indicated.

RONA: key segment figures for the six months ended June 26, 2011

(in thousands of dollars)	Year to date 2011	Year to date 2010	\$ change from 2010	% change from 2010
Segment revenues				
Retail and Commercial	1,674,750	1,758,799	(84,049)	(4.8%)
Distribution	1,245,319	1,280,770	(35,451)	(2.8%)
Total	2,920,069	3,039,569	(119,500)	(3.9%)
Intersegment revenues and royalties				
Retail and Commercial	-	-	-	-
Distribution	(631,812)	(678,430)	46,618	6.9%
Total	(631,812)	(678,430)	46,618	6.9%
Revenues				
Retail and Commercial	1,674,750	1,758,799	(84,049)	(4.8%)
Distribution	613,507	602,340	11,167	1.9%
Total	2,288,257	2,361,139	(72,882)	(3.1%)
EBITDA				
Retail and Commercial	69,742	126,693	(56,951)	(45.0%)
Distribution	28,208	41,117	(12,909)	(31.4%)
Total	97,950	167,810	(69,860)	(41.6%)
EBITDA margin				
Retail and Commercial	4.16%	7.20%	-	-304 b.p.
Distribution	4.60%	6.83%	-	-223 b.p.
Total	4.28%	7.11%	-	-283 b.p.

Retail and Commercial

Revenues amounted to \$1,674.8 million, down \$84.0 million, or 4.8%. Same-store sales were down 10.8%. As indicated in the Analysis of Consolidated Results, the decrease in same-store sales was due to the cold and wet weather in the first half of the year, and particularly in March, April and May all across the country, the decline in housing starts, the absence of the home renovation tax credit at the start of the year, and consumers' careful approach to their renovation projects. Market conditions gradually improved during the first half and in July, but the downward pressure on same-store sales continued. Ontario was least affected by the decline in sales, while Western Canada was most affected. Sales of lumber and construction materials were particularly weak since the start of the year and only started to strengthen in early July, after the close of the second quarter. Since more than 30% of RONA's sales are generated in these categories, the impact on consolidated results in the first six months of the year was significant.

As noted in the second quarter analysis, retail consumers continue to be prudent and selective in their spending as they seek to lower their personal debt levels and absorb price increases for gas and food products. This behaviour, combined with the above-mentioned elements, resulted in less traffic through the stores and lower weekend and install sales. However, the average size of the basket was much less impacted than traffic as merchandising and in-store service initiatives, such as the RONAAdvantages program, the fast-growing and highly-recognized private and controlled brands, and the unique RONA ECO product line, are working well. The penetration rate for private and controlled brands rose from 24% at the end of 2010 to 28% at the close of second quarter 2011.

EBITDA was \$69.7 million, down \$57.0 million and the EBITDA margin decreased 304 basis points, to 4.16%. In addition to the negative impact of lower same-store sales, EBITDA and EBITDA margin were affected by new store openings and acquisitions, as the EBITDA margins of the new stores and acquired companies were lower than those of RONA's existing retail and commercial operations. Margins are expected to improve as synergies are realized. These downward pressures on margin were partly offset by the decrease in some variable expenses.

Distribution

Net of intersegment activities, distribution revenues increased 1.9%, or \$11.2 million, to \$613.5 million. While affiliated dealers faced the same pressures as the retail division with respect to sales, the decline in revenues resulting from these pressures were more than offset by the acquisition of TruServ Canada, a company with 650,000 square feet of warehousing and distribution space and generating annual hardware distribution sales of over \$100 million; by new dealers; and by existing dealer expansion projects.

As for the retail division, lumber and building materials categories were particularly weak in the first half of the year.

The distribution segment generated \$28.2 million in EBITDA, a decrease of \$12.9 million, or 31.4%. EBITDA margin was down 223 basis points, to 4.60%. While revenues were up, EBITDA and EBITDA margin were negatively affected by higher gas prices and warehousing costs. The EBITDA margin was also adversely affected by the acquisition of TruServ Canada, which had a lower EBITDA margin than RONA's distribution operations. This margin is expected to improve as synergies are realized in the coming quarters.

Cash flows and financial position

For the quarter ended June 26, 2011, cash flow from operating activities before net change in working capital, interest received and income taxes paid was \$81.4 million, compared to \$127.3 million in 2010. The decrease is mainly due to lower earnings before income tax expense, which went from \$98.5 million in second quarter 2010 to \$57.1 million in second quarter 2011. The net change in working capital was \$134.1 million in second quarter 2011 compared to a negative change of \$42.2 million in 2010. The strong increase stems mainly from an increase in trade and other payables. Note that despite the higher inventory stemming mainly from acquisitions, new stores and expansion of distribution operations in the Commercial and Professional Market division, same-store inventories for retail stores and distribution were down \$15 million at the end of the second quarter 2011 compared to the same period in 2010. Moreover, since the beginning of the year, the variation of comparable inventories was \$92 million less than the variation in the corresponding period of 2010.

Net of changes in working capital, interest received and income taxes paid, operations generated \$210.6 million in the second quarter 2011, compared to \$71.1 million for the corresponding period in 2010.

The Corporation continued to exercise disciplined financial management and strictly monitored investments in property, plant and equipment. For the second quarter, RONA invested \$26.9 million in property, plant and equipment and intangible assets, \$5.1 million less than the \$32.0 million invested in the second quarter 2010. These investments were used to expand the Corporation's retail network, including finishing the construction of the new 68,000-square-foot RONA store in St. John's, Newfoundland and Labrador, ongoing improvements to information systems in order to improve operational efficiency and maintenance work.

In the first half of 2011, cash flows from operating activities before net change in working capital, interest received and income taxes paid amounted to \$81.9 million compared to \$156.3 million in 2010. The decrease is mainly due to lower earnings before income taxes paid, which declined from \$102.2 million in the first half of 2010 to \$32.6 million in the first half of 2011. The net change in working capital was a negative \$7.9 million in the first half of 2011 compared to a negative \$140.8 million in 2010. This strong increase is mainly due to an increase in trade and other payables in the second quarter and the reduction in comparable inventories.

Net of changes in working capital, interest received and income taxes paid, operations generated \$49.2 million in the first half of 2011, compared to a negative change of \$8.2 million for the same period in 2010.

For the first half of 2011, RONA invested \$49.1 million in property, plant and equipment and intangible assets, \$6.1 million less than in the first half of 2010, when such investments amounted to \$55.2 million. RONA continued to exercise disciplined financial management, strictly monitoring investments in property, plant and equipment such that it now represents a lower amount than depreciation and amortization for the period. These investments were used to expand the Corporation's retail network, including finishing the construction of the new 68,000-square-foot RONA store in St. John's, Newfoundland and Labrador, ongoing improvements to information systems in order to improve operational efficiency and store renovation and maintenance.

With the approval of the Toronto Stock Exchange, during the second quarter of 2010, the Board of Directors of the Corporation 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 have been 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 have been cancelled. The average daily trading volume (ADTV) of the Corporation's common shares was 293,413 on the Toronto Stock Exchange over the first six completed calendar months of the year. Accordingly, since the Corporation was entitled to purchase up to 25% of the ADTV on any trading day, it could purchase 73,353 common shares per day in addition to block trades in accordance with the Toronto Stock Exchange rules. Since the Corporation had the financial flexibility required to execute its growth plan, it used its normal course issuer bid to eliminate the dilutive effect caused by the issuance of common shares when businesses were acquired. The Corporation believes that the purchase of its common shares represented an effective use of its funds and is in the best interests of the Corporation 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 Corporation. In the second and third quarter of 2010, the Corporation repurchased 2,230,067 shares for a total consideration of \$31.6 million in order to avoid dilution caused by the issuance of shares relating to the acquisition of Pierceys.

Cash flow from operating activities, along with cash available at the beginning of the year, was used over the period to fund acquisitions, capital expenditures and to repay a portion of long-term debt. Given the amounts generated by working capital, net debt was down \$31.1 million compared to June 27, 2010. As at June 26, 2011, RONA had \$193.5 million in cash.

The Board of Directors established a new dividend policy and on December 8, 2010 declared a cash dividend of \$0.07 per common share. This dividend was paid on March 25, 2011 to holders of record on March 10, 2011. The Board will review the policy from time to time in light of the Corporation's cash flow, earnings, the Corporation's financial position and other relevant factors.

During the first quarter of 2011, RONA issued Class A Preferred Shares, Series 6, for gross proceeds of \$172.5 million. In the short term, the net proceeds of the offering were used by RONA to fund working capital requirement. They were then used to reduce the Corporation's net indebtedness. This issue has further strengthened RONA's balance sheet, diversified its sources of financing and increased its financial flexibility to ensure the Corporation may continue to execute its strategic plan. Further details regarding these shares may be found in the Corporation's 2011 press releases of February 1, February 22 and March 1. The first dividend on preferred shares was paid on June 30, 2011, after the second quarter close, to holders of record on June 15, 2011.

The table below presents a synopsis of the Corporation's contractual obligations as at June 26, 2011, including off-balance-sheet operating lease agreements used in the normal course of business. The Corporation has also concluded other off-balance-sheet arrangements (such as inventory buyback agreements and guaranteed mortgage loans), which do not appear in the table below. The Corporation has guaranteed mortgages amounting to \$0.4 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 \$5.5 million. Pursuant to the terms of inventory repurchase agreements, the Corporation has undertakings with financial institutions to buy back the inventory of certain customers at an average of 62% of the cost of the inventories to a maximum of \$48.1 million. In the event of recourse, this inventory would be sold in the normal course of the Corporation's operations. These agreements have undetermined periods but may be cancelled by the Corporation on 30 days' notice. In the opinion of Management, the likelihood that significant payments would be incurred as a result of these commitments is low. Finally, letters of credit for imports totalling \$14.9 million were outstanding as at June 26, 2011 for the purchase of various, mainly seasonal, products.

**Contractual obligations by term
(as at June 26, 2011)**

Contractual obligations	Payments by term (in thousands of dollars)				
	Total	Less than 1 year	1-2 years	3-4 years	5 or more years
Long-term loans	428,270	7,081	10,629	4,031	406,529
Obligations under finance leases	2,400	1,254	625	374	147
Operating leases	1,047,019	128,638	239,198	197,086	482,097
Other long-term obligations	23,292	14,542	8,750	-	-
Total	1,500,981	151,515	259,202	201,491	888,773

**Outstanding shares
(as at July 29, 2011)**

Common shares	130,445,249
Unexercised options	2,055,494
Total	132,500,743

RONA's balance sheet remains strong. On June 26, 2011, the Corporation's net indebtedness was only \$261.6 million and the ratio of total net debt to capital was 11.05%, compared to 13.47% on June 27, 2010; the ratio of equity to assets was 63.26%, compared to 62.34%.

DIVIDENDS ON PREFERRED SHARES

At its meeting on August 9, 2011, RONA's Board of Directors declared a quarterly dividend of \$0.3308 per share on cumulative 5-year rate reset Class A preferred shares, series 6. The dividend will be paid on September 30, 2011 to holders of record on September 15, 2011.

DIVIDENDS ON COMMON SHARES

At its meeting on August 9, 2011, the Board of Directors declared a semi-annual dividend of \$0.07 per share on the Corporation's common shares. The dividend will be paid on September 26, 2011 to holders of record on September 10, 2011.

SUMMARY OF QUARTERLY RESULTS

RONA's results fluctuate significantly from one quarter to another due to the highly seasonal nature of renovation and construction activities. The strongest period of the year is from spring to fall, and over 80% of the Corporation's net annual earnings are generated in the second and third quarters. Furthermore, sales in the first quarter are always lower than in the other three, due to low activity levels in the renovation and construction sectors during the winter. Poor weather conditions can also have a major impact on revenues. With the increase in the proportion of our activities related to the retail sector, the seasonal impact of the first quarter has been more pronounced in 2009, 2010

and 2011 than in previous years. The second quarter is usually always the strongest of the year, followed by the third quarter.

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

	2011		2010				2009 ¹		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenues	1,370.0	918.2	1,139.2	1,319.2	1,404.2	956.9	1,140.9	1,320.5	1,369.9
EBITDA	89.9	8.1	63.7	103.7	133.1	34.8	78.8	105.8	122.9
EBITDA (excluding unusual items)	89.9	8.1	63.7	103.7	133.1	34.8	78.4	111.8	131.1
Net income (loss) attributable to owners of RONA inc.	39.5	(16.8)	19.2	48.0	66.3	3.0	30.9	49.1	60.8
Net income (loss) attributable to owners of RONA inc. (excluding unusual items)	39.5	(16.8)	19.2	48.0	66.3	3.0	30.6	53.3	66.5
Net earnings (loss) attributable to participating shares	37.0	(17.6)	19.2	48.0	66.3	3.0	30.9	49.1	60.8
Net earnings (loss) attributable to participating shares (excluding unusual items)	37.0	(17.6)	19.2	48.0	66.3	3.0	30.6	53.3	66.5
Earnings (loss) per share (\$)	0.28	(0.13)	0.15	0.37	0.51	0.02	0.24	0.38	0.51
Earnings (loss) per share (\$) (excluding unusual items)	0.28	(0.13)	0.15	0.37	0.51	0.02	0.24	0.41	0.56
Diluted earnings (loss) per share (\$)	0.28	(0.13)	0.15	0.36	0.51	0.02	0.24	0.38	0.51
Diluted earnings (loss) per share (\$) (excluding unusual items)	0.28	(0.13)	0.15	0.36	0.51	0.02	0.23	0.41	0.55

¹⁾ The selected information that is presented for quarterly periods in fiscal 2009 does not reflect the impact of the adoption of IFRS.

Annual growth in same-store sales
Last nine quarters

Q2-2009	Q3-2009	Q4-2009	Q1-2010	Q2-2010	Q3-2010	Q4-2010	Q1-2011	Q2-2011
-6.2%	-5.3%	+0.7%	+10.8%	+0.9%	-2.3%	-6.4%	-12.6%	-9.6%

The economic recovery which began in the second half of 2009 continued on through 2010 and into 2011. While there was a surge of economic activity in the first quarter of 2010, the pace of economic growth slowed somewhat since then, resulting in positive, but moderate economic growth.

While the economy recovered, consumer confidence experienced a slide over the course of 2010 and into 2011. In the latter half of 2010 and the first half of 2011, there was a slowdown in housing market activity, when compared to 2009. This reflects, in part, the impact of the incentives introduced by various levels of government during 2009 in the form of tax credit programs that expired in early 2010.

In early 2009, consumer confidence was at its lowest since January 2005. It improved over the course of 2009, but began dropping off again at the beginning of 2010. It did not drop back to the levels of 2009, but rather stabilized somewhat in the latter half of the year and early 2011 at a level below what had been seen between mid-2006 and early 2008.

Weather also had a particularly significant impact on results for the first quarters of 2010 and 2011, positively for 2010 which experienced very favourable weather conditions and negatively for 2011 which experienced very unfavourable weather conditions, which have continued into the second quarter of 2011.

OUTLOOK

Despite the Bank of Canada forecast of 2.6% economic growth in 2011, the housing industry continues to face tough market conditions. After a marked decline in housing starts since the beginning of the year, the situation improved in June and the average selling price of homes continued to climb. Usually this would promote home renovation, however, given consumers' high level of debt and current inflationary pressures, especially on gas prices, in general consumers are still being careful and selective in their discretionary spending. Furthermore, the Conference Board of Canada noted that the Consumer Confidence Index fell 2.5 points in June to 83.1, following upon a 2.1 points drop in May.

Given these factors and their influence on the renovation projects of Canadian consumers, the following measures were implemented by RONA starting in the first quarter to mitigate negative impacts on the Corporation's financial results:

- intensification of the PEP program with an emphasis on supply chain management and store productivity;
- a \$25 million reduction in CAPEX, along with a strong focus on optimizing the existing network across the country through renovation, consolidation and information technology;
- disposal of non-core land and assets; and
- reduction in administrative expenses.

In the second quarter the Corporation:

- reduced same-store retail and distribution inventory by \$15 million compared to the same period a year ago. This is in line with the goal of reducing inventory by \$100 million by the end of the year;
- maintained strict control of investments in property, plant and equipment by limiting such investments to close to \$50 million for the first half of 2011, which is less than the depreciation and amortization expense for the period. The Corporation expects to maintain its CAPEX at a level in line with the capital investment for the second half also;
- sold several pieces of land and secondary assets, as well as a lot in Beloeil, Quebec to one of our RONA dealers;
- incurred a non-recurring expense of \$3 million related to workforce reduction. Despite these unusual expenses, the Corporation reduced its administrative expense for regular operations excluding acquisitions in the quarter. These decreases, and those related to workforce reductions, result from optimization of our network and investments in information technology; on an annualized basis they will reduce administrative expenses excluding acquisitions by more than 10%.

These measures will be ongoing during the year to mitigate the ongoing pressure on same-store sales anticipated by the Corporation given the low level of consumer confidence and consumers' careful approach to major renovation projects.

In addition, starting in the second quarter, RONA implemented further optimization measures which will enable the Corporation to reverse the downward pressure on gross margin and reduce selling and administrative expenses in the second half of fiscal 2011.

The Corporation is managing this situation carefully and will continue to supply its affiliate dealer-owners with all the tools and support they need to embrace consolidation opportunities stemming from market conditions.

The above measures should enable RONA to keep its investment grade credit profile even as it continues to improve its competitive position in an industry in transformation. RONA management is confident that it has the most effective business model and financial flexibility to increase return on capital and take advantage of the current and future changes in its industry. Finally, counting on its strong free cash flow generation, the Corporation's Board of Directors approved the implementation of a normal course issuer bid, subject to the Toronto Stock Exchange approval, at its quarterly meeting.

SUSTAINABILITY

Sustainable development is a core component of RONA's strategic plan. Key programs have been developed and introduced in response to the Corporation's objectives. In the past few years, RONA has undertaken a number of sustainability initiatives dealing with its products, procurement policies, environmental footprint and corporate governance. Here are new initiatives pursued in the first half of 2011:

- In the second quarter, RONA, in partnership with Hydro-Quebec, les Rôtisseries St-Hubert, METRO and l'Agence métropolitaine de transport (AMT), announced that it was involved in setting up the first network of public charging stations for plug-in electric cars in Canada, the "Electric Circuit." Using clean and renewable energy, the first charging stations will become available in early 2012 at the business locations of the founding partners and at dedicated parking spots provided by the AMT. Electric-car drivers will be able to travel knowing that they can charge up at a public station when they need to. Initially, the Electric Circuit will provide one hundred 240-volt stations. Quick-charging (400V) stations will follow in 2012 once the certification process is completed in Canada.
- Three new stores opened during the first quarter: a new 102,000-square-foot Réno-Dépôt store in Vaudreuil-Dorion, Quebec, a new 100,000-square-foot Réno-Dépôt store in the Quebec City borough of Sainte-Foy and a new 52,000-square-foot store under the TOTEM banner in Edmonton, Alberta. These stores were built to meet the criteria of the LEED system (Leadership in Energy and Environmental Design) for new buildings.
- In March, the Maple Leaf Sports & Entertainment's (MLSE) Team Up Foundation, in collaboration with the City of Mississauga unveiled plans to refurbish the Burnhamthorpe Community Centre's outdoor rink. The MLSE Team Up Foundation, with the support of MLSE's Corporate Partner RONA, is investing \$25,000 in significant upgrades and improvements to the rink. This marks the seventh such partnership involving RONA. Work on the arena will be completed in the spring with supplies donated by the Corporation. This is a continuation of RONA's long-standing commitment to Canadian sports, both professional and amateur. RONA was a National Partner of the Vancouver 2010 Olympic and Paralympic Games. As well, it will be a National Partner of the Canadian Olympic and Paralympic Teams through the London 2012 Summer Games.

RISKS AND UNCERTAINTIES

No major change has occurred since the publication of the annual *Management's Discussion and Analysis* for the year ended December 26, 2010.

CHANGES IN ACCOUNTING POLICIES

The Corporation has adopted IFRS for its 2011 fiscal year as required by the Accounting Standards Board of the Canadian Institute of Chartered Accountants. The Corporation provided information on its transition to IFRS in its 2010 annual Management's Discussion and Analysis. The assessments and impacts discussion in the 2010 annual Management's Discussion and Analysis remain largely unchanged.

The Corporation has provided a detailed explanation of the impacts of this transition in Note 18 of the Corporation's second quarter 2011 unaudited interim consolidated financial statements ("Note 18"). Note 18 includes reconciliations of the Corporation's balance sheet and shareholders' equity from Canadian GAAP to IFRS as at December 26, 2010, and June 27, 2010, and its fiscal 2010 net income and comprehensive income for the 52 weeks ended December 26, 2010 and 13 and 26 weeks ended June 27, 2010. Explanations of the individual impacts of adopting IFRS identified in the reconciliations are also provided, as are the Corporation's elections under IFRS 1 "First-time Adoption of International Financial Reporting Standards". For a description of the significant accounting policies, please refer to Note 3 of the Corporation's interim Consolidated Financial Statements for the quarter ended March 27, 2011.

Future accounting standards

In November 2009, the IASB issued new IFRS 9, *Financial Instruments*, which will replace IAS 39, *Financial Instruments: Recognition and Measurement*. The standard provides guidance on the classification and measurement of financial assets. In October 2010, the IASB amended IFRS 9 to add guidance on the classification and measurement of financial liabilities, and requirements for the derecognition of financial assets and financial liabilities.

In May 2011, the IASB issued the following standards:

IFRS 10, *Consolidated Financial Statements*, which will replace certain parts of IAS 27, *Consolidated and Separate Financial Statements* and SIC-12, *Consolidation - Special Purpose Entities*. It introduces a new principle-based definition of control, applicable to all investees to determine the scope of consolidation. The standard provides the framework for consolidated financial statements and their preparation based on the principle of control.

IFRS 11, *Joint Arrangements*, which will replace IAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. IFRS 11 differs from the previous standards in certain aspects. Among other things, the use of the proportionate consolidation method is no longer permitted for interests in joint ventures.

IFRS 12, *Disclosure of Interests in Other Entities*, is a new standard which provides minimum disclosure requirements when a reporting entity holds an interest in other entities. This standard combines disclosures required for interests in subsidiaries, joint arrangements, associates and unconsolidated structures entities, which were previously located in each applicable individual standard.

In June 2011, IASB issued an amended version of IAS 19, *Employee Benefits*, to eliminate the "corridor method" under which it was possible to defer recognition of gains or losses, to replace the expected return on plan assets in the calculation of defined benefit charges by the discount rate used for liabilities, to streamline the presentation of changes in assets and liabilities arising from defined benefit plans and to enhance the disclosure requirements for defined benefit plans.

These standards apply to fiscal years which start as of January 1, 2013. The Corporation is currently assessing the impact adoption of the new standards will have on the consolidated financial statements. Other standards have been published but have no impact for the Corporation.

SIGNIFICANT ACCOUNTING ESTIMATES

No major change has occurred since the publication of the annual *Management's Discussion and Analysis* for the year ended December 26, 2010.

INTERNAL CONTROL OVER FINANCIAL REPORTING

During the second quarter of 2011, 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 Corporation may constitute forward-looking statements within the meaning of the Canadian securities legislation and regulations. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "foresee," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. Although the Corporation believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct.

Forward-looking statements do not take into account the impact that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Corporation's business. For example, they do not include the impact of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made.

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

The forward-looking statements in this MD&A reflect the Corporation's expectations as at August 10, 2011, and are subject to change after this date. The Corporation expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

ADDITIONAL INFORMATION

This MD&A was prepared on August 10, 2011. The reader will find additional information concerning RONA, including the Corporation's Annual Information Form, on the Corporation's website at www.rona.ca or on the SEDAR website at www.sedar.com.

Marie-Claude Lalonde (signed)

Marie-Claude Lalonde
Vice President and Corporate Controller
and Chief Financial Officer by interim

Robert Dutton (signed)

Robert Dutton
President and
Chief Executive Officer



Consolidated Financial Statements
June 26, 2011 and June 27, 2010
(unaudited)

RONA inc.
Consolidated Income Statements
Consolidated Statements of Comprehensive Income

Thirteen and twenty-six-week periods ended June 26, 2011 and June 27, 2010
(Unaudited and in thousands of Canadian dollars, except per share amounts)

Consolidated Income Statements

	Second Quarter		Year-to-date	
	2011	2010	2011	2010
Revenues (Note 4)	\$1,370,046	\$1,404,219	\$2,288,257	\$2,361,139
Operating profit (Note 6)	62,485	103,288	42,880	111,465
Finance income	1,340	1,253	2,711	2,267
Finance costs	(6,751)	(6,064)	(13,038)	(11,485)
	(5,411)	(4,811)	(10,327)	(9,218)
Income before income tax expense	57,074	98,477	32,553	102,247
Income tax expense (Note 7)	(15,981)	(29,396)	(9,115)	(30,521)
Net income	\$ 41,093	\$ 69,081	\$ 23,438	\$ 71,726
Net income attributable to:				
Owners of RONA inc.	\$ 39,496	\$ 66,272	\$ 22,735	\$ 69,313
Non-controlling interests	1,597	2,809	703	2,413
	\$ 41,093	\$ 69,081	\$ 23,438	\$ 71,726
Net earnings per share attributable to owners of RONA inc. (Note 16)				
Basic and diluted	\$ 0.28	\$ 0.51	\$ 0.15	\$ 0.53

Consolidated Statements of Comprehensive Income

Net income	\$ 41,093	\$ 69,081	\$ 23,438	\$ 71,726
Other comprehensive income (loss), net of taxes :				
Cash flow hedges				
– Income (loss) for the period	46	433	(686)	67
– Reclassification to income or loss	778	160	2,352	160
Total comprehensive income	\$ 41,917	\$ 69,674	\$ 25,104	\$ 71,953
Total comprehensive income attributable to:				
Owners of RONA inc.	\$ 40,320	\$ 66,865	\$ 24,401	\$ 69,540
Non-controlling interests	1,597	2,809	703	2,413
	\$ 41,917	\$ 69,674	\$ 25,104	\$ 71,953

The related notes form an integral part of these interim consolidated financial statements.

RONA inc.

Consolidated Statements of Changes in Equity

June 26, 2011, June 27, 2010 and December 26, 2010

(Unaudited and in thousands of Canadian dollars)

	Share capital ^(a)	Retained earnings	Contributed surplus	Cash flow hedge reserve	Total attributable to owners of RONA inc.	Non- controlling interests	Total equity
Balance, December 26, 2010	\$ 632,614	\$ 1,234,933	\$ 11,137	\$ (1,217)	\$ 1,877,467	\$ 35,809	\$ 1,913,276
Transactions with owners							
Issuance in exchange for cash	172,600	-	-	-	172,600	-	172,600
Issuance under stock option plans	1,362	-	(283)	-	1,079	-	1,079
Dividends declared on common shares	-	(2)	-	-	(2)	-	(2)
Dividends on preferred shares	-	(3,276)	-	-	(3,276)	-	(3,276)
Fees related to issuance of preferred shares, net of related income tax recovery of \$1,485	-	(4,036)	-	-	(4,036)	-	(4,036)
Compensation cost relating to stock option plans	-	-	517	-	517	-	517
Deposits on common share subscriptions received	1,240	-	-	-	1,240	-	1,240
Deposits on common share subscriptions refunded	(75)	-	-	-	(75)	-	(75)
Other	-	-	-	-	-	28	28
Total transactions with owners	175,127	(7,314)	234	-	168,047	28	168,075
Income for the period	-	22,735	-	-	22,735	703	23,438
Other comprehensive income (loss):							
Cash flow hedges							
- Current year losses	-	-	-	(686)	(686)	-	(686)
- Reclassification to income or loss	-	-	-	2,352	2,352	-	2,352
Total comprehensive income for the period	-	22,735	-	1,666	24,401	703	25,104
Balance, June 26, 2011	\$ 807,741	\$ 1,250,354	\$ 11,371	\$ 449	\$ 2,069,915	\$ 36,540	\$ 2,106,455

(a) Additional detail of share capital is provided in note 13.

The related notes form an integral part of these interim consolidated financial statements.

RONA inc.

Consolidated Statements of Changes in Equity

June 26, 2011, June 27, 2010 and December 26, 2010

(Unaudited and in thousands of Canadian dollars)

	Share capital ^(a)	Retained earnings	Contributed surplus	Cash flow hedge reserve	Total attributable to owners of RONA inc.	Non-controlling interests	Total equity
Balance, December 27, 2009	\$ 603,756	\$ 1,125,235	\$ 13,138	\$ –	\$ 1,742,129	\$ 32,761	\$ 1,774,890
Transactions with owners							
Issuance in exchange for cash	33	–	–	–	33	–	33
Issuance under stock option plans	151	–	(12)	–	139	–	139
Issuance as payment for a business acquisition	35,722	–	–	–	35,722	–	35,722
Repurchase of common shares	(1,419)	(213)	(3,153)	–	(4,785)	–	(4,785)
Compensation cost relating to stock option plans	–	–	606	–	606	–	606
Deposits on common share subscriptions received	1,413	–	–	–	1,413	–	1,413
Deposits on common share subscriptions refunded	(28)	–	–	–	(28)	–	(28)
Other	151	–	–	–	151	33	184
Total transactions with owners	36,023	(213)	(2,559)	–	33,251	33	33,284
Income for the period	–	69,313	–	–	69,313	2,413	71,726
Other comprehensive income (loss):							
Cash flow hedges							
- Current year income	–	–	–	67	67	–	67
- Reclassification to income or loss	–	–	–	160	160	–	160
Total comprehensive income for the period	–	69,313	–	227	69,540	2,413	71,953
Balance, June 27, 2010	\$ 639,779	\$ 1,194,335	\$ 10,579	\$ 227	\$ 1,844,920	\$ 35,207	\$ 1,880,127

(a) Additional detail of share capital is provided in note 13.

The related notes form an integral part of these interim consolidated financial statements.

RONA inc.

Consolidated Statements of Changes in Equity

June 26, 2011, June 27, 2010 and December 26, 2010

(Unaudited and in thousands of Canadian dollars)

	Share capital ^(a)	Retained earnings	Contributed surplus	Cash flow hedge reserve	Total attributable to owners of RONA inc.	Non-controlling interests	Total equity
Balance, December 27, 2009	\$ 603,756	\$ 1,125,235	\$ 13,138	\$ –	\$ 1,742,129	\$ 32,761	\$ 1,774,890
Transactions with owners							
Issuance in exchange for cash	370	–	–	–	370	–	370
Issuance under stock option plans	661	–	(62)	–	599	–	599
Issuance as payment for a business acquisition	35,722	–	–	–	35,722	–	35,722
Repurchase of common shares	(10,790)	(17,666)	(3,153)	–	(31,609)	–	(31,609)
Dividends declared on common shares ^(b)	–	(9,119)	–	–	(9,119)	–	(9,119)
Cash dividends paid by a subsidiary to non-controlling interests	–	–	–	–	–	(2,450)	(2,450)
Compensation cost relating to stock option plans	–	–	1,214	–	1,214	–	1,214
Deposits on common share subscriptions received	2,772	–	–	–	2,772	–	2,772
Deposits on common share subscriptions refunded	(28)	–	–	–	(28)	–	(28)
Other	151	–	–	–	151	33	184
Total transactions with owners	28,858	(26,785)	(2,001)	–	72	(2,417)	(2,345)
Income for the period	–	136,483	–	–	136,483	5,465	141,948
Other comprehensive income (loss):							
Cash flow hedges							
- Current year losses	–	–	–	(1,490)	(1,490)	–	(1,490)
- Reclassification to income or loss	–	–	–	273	273	–	273
Total comprehensive income (loss) for the period	–	136,483	–	(1,217)	135,266	5,465	140,731
Balance, December 26, 2010	\$ 632,614	\$ 1,234,933	\$ 11,137	\$ (1,217)	\$ 1,877,467	\$ 35,809	\$ 1,913,276

(a) Additional detail of share capital is provided in note 13.

(b) During 2010, RONA inc. declared a dividend of \$0.07 per share.

The related notes form an integral part of these interim consolidated financial statements.

RONA inc.

Consolidated Statements of Cash Flow

Thirteen and twenty-six-week periods ended June 26, 2011 and June 27, 2010

(Unaudited and in thousands of Canadian dollars)

	Second Quarter		Year-to-date	
	2011	2010	2011	2010
Operating activities				
Income before income tax expense	\$ 57,074	\$ 98,477	\$ 32,553	\$ 102,247
Adjustments:				
Depreciation, amortization and impairment of non-financial assets (Note 6)	26,062	28,511	52,359	54,078
Change in fair value of derivative financial instruments	(30)	(689)	(240)	(822)
Net gains on disposal of assets	(654)	(1,000)	(1,128)	(1,093)
Stock-based compensation expense (recovery)	(654)	1,369	(1,301)	2,879
Difference between amounts paid for post-employment benefits and current period expenses	(652)	153	(941)	(1,842)
Other	286	490	563	810
	81,432	127,311	81,865	156,257
Net change in working capital	134,109	(42,225)	(7,878)	(140,839)
	215,541	85,086	73,987	15,418
Interest received	1,247	804	1,958	1,416
Income taxes paid	(6,149)	(14,756)	(26,733)	(25,037)
Cash flow from operating activities	210,639	71,134	49,212	(8,203)
Investing activities				
Business acquisitions (Note 8)	(10,133)	(7,086)	(14,195)	(10,148)
Acquisition of property, plant and equipment	(17,858)	(20,983)	(34,198)	(38,298)
Acquisition of intangible assets	(9,081)	(10,983)	(14,908)	(16,941)
Acquisition of other financial assets	(1,648)	(641)	(4,220)	(641)
Proceeds on disposal of property, plant and equipment	4,152	1,005	4,589	1,330
Proceeds on disposal of other financial assets	275	4,279	1,892	4,680
Interest received	303	449	489	851
Cash flow from investing activities	(33,990)	(33,960)	(60,541)	(59,167)
Financing activities				
Bank loans	1,380	3,793	3,957	8,135
Other long-term debt	135	–	786	–
Repayment of other long-term debt	(11,648)	(2,107)	(22,203)	(7,907)
Proceeds from issue of common shares	1,393	992	2,344	1,556
Proceeds from issue of preferred shares	–	–	172,500	–
Fees related to issue of preferred shares	(14)	–	(5,522)	–
Repurchase of common shares	–	(4,785)	–	(4,785)
Dividends on common shares	–	–	(9,121)	–
Interest paid	(1,955)	(4,878)	(13,478)	(11,353)
Cash flow from financing activities	(10,709)	(6,985)	129,263	(14,354)
Net increase (decrease) in cash	165,940	30,189	117,934	(81,724)
Cash, beginning of period	27,571	127,344	75,577	239,257
Cash, end of period	\$ 193,511	\$ 157,533	\$ 193,511	\$ 157,533

The related notes form an integral part of these interim consolidated financial statements.

RONA inc.

Consolidated Statements of Financial Position

As at June 26, 2011, June 27, 2010 and December 26, 2010

(Unaudited and in thousands of Canadian dollars)

	2011 June 26	2010 June 27	2010 December 26
Assets			
Current			
Cash	\$ 193,511	\$ 157,533	\$ 75,577
Trade and other receivables	424,962	364,696	299,889
Other financial assets	2,414	2,545	2,245
Current tax assets	14,778	2,539	–
Inventory (Note 5)	1,030,100	942,077	905,467
Prepaid expenses	31,046	31,405	17,955
Derivative financial instruments	614	255	–
Current assets	<u>1,697,425</u>	<u>1,501,050</u>	<u>1,301,133</u>
Non-current			
Other financial assets	13,355	10,527	9,644
Property, plant and equipment	884,020	830,898	885,044
Non-current assets held for sale (Note 10)	18,810	11,083	16,474
Goodwill	535,056	495,302	529,094
Intangible assets	126,855	112,885	128,223
Other non-current assets	3,892	3,879	3,967
Deferred tax assets	50,445	50,185	48,407
Total assets	<u>\$ 3,329,858</u>	<u>\$ 3,015,809</u>	<u>\$ 2,921,986</u>
Liabilities			
Current			
Bank loans	\$ 5,900	\$ 12,901	\$ 1,943
Trade and other payables	694,147	619,546	454,166
Dividends payable	–	–	9,119
Current tax liabilities	–	–	3,379
Derivative financial instruments	–	–	1,653
Provisions (Note 11)	4,797	4,086	4,625
Instalments on long-term debt	20,928	12,463	21,151
Current liabilities	<u>725,772</u>	<u>648,996</u>	<u>496,036</u>
Non-current			
Long-term debt	428,240	424,795	444,333
Other non-current liabilities	29,416	27,352	29,292
Provisions (Note 11)	3,651	3,739	4,539
Deferred tax liabilities	36,324	30,800	34,510
Total liabilities	<u>1,223,403</u>	<u>1,135,682</u>	<u>1,008,710</u>
Equity			
Share capital (Note 13)	807,741	639,779	632,614
Retained earnings	1,250,354	1,194,335	1,234,933
Contributed surplus	11,371	10,579	11,137
Accumulated other comprehensive income	449	227	(1,217)
Total equity attributable to owners of RONA inc.	<u>2,069,915</u>	<u>1,844,920</u>	<u>1,877,467</u>
Non-controlling interests	36,540	35,207	35,809
Total equity	<u>2,106,455</u>	<u>1,880,127</u>	<u>1,913,276</u>
Total liabilities and equity	<u>\$ 3,329,858</u>	<u>\$ 3,015,809</u>	<u>\$ 2,921,986</u>

The related notes form an integral part of these interim consolidated financial statements.

RONA inc.
Notes to Interim Consolidated Financial Statements
as at June 26, 2011 and June 27, 2010
(Unaudited and in thousands of Canadian dollars)

1. Reporting Entity

RONA inc., a corporation headquartered at 220 Chemin du Tremblay, Boucherville, Quebec, Canada is regulated by the *Business Corporations Act* (Quebec) (formerly Part 1A of the *Companies Act* (Quebec)). The common shares are listed on the Toronto Stock Exchange.

The Corporation's consolidated financial statements for the twenty-six-week periods ended June 26, 2011 and June 27, 2010 include financial data for the Corporation and its subsidiaries (collectively referred to as the "Corporation" and individually referred to as the "Corporation's entities") and the Corporation's share of the jointly controlled entities.

The Corporation is a distributor and a retailer of hardware, home improvement and gardening products in Canada.

2. Basis of Presentation

(a) General information, adoption of IFRS and declaration of conformity with IAS 34

These interim condensed consolidated financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34, *Interim financial reporting*.

In May 2011, the Corporation filed its interim consolidated financial statements for the quarter ended March 27, 2011 disclosing for the first time its results and financial position under IFRS. The Corporation's interim financial statements for the quarter ended March 27, 2011, and the current interim financial statements for the quarter ended June 26, 2011 were prepared in accordance with IFRS 1, *First-time Adoption of International Financial Reporting Standards* and in accordance with accounting policies that the Corporation intends to adopt in its financial statements for the year ended December 25, 2011.

The accounting policies described in Note 3 have been applied on a consistent basis for all reported periods, unless otherwise indicated. Previously, the consolidated financial statements of the Corporation were prepared according to Canadian GAAP in effect before the changeover ("GAAP").

Note 18 explains how the transition to IFRS affected the Corporation's reported financial position, results and cash flows.

(b) Measurement basis

The consolidated financial statements were prepared under the historical cost basis, except for the revaluation of certain financial instruments at estimated fair value.

(c) Functional and reporting currency

The consolidated financial statements are presented in Canadian dollars, which is the functional currency of RONA inc. and all the Corporation's entities. All financial information presented in Canadian dollars has been rounded to the nearest thousand.

RONA inc.
Notes to Interim Consolidated Financial Statements
as at June 26, 2011 and June 27, 2010
(Unaudited and in thousands of Canadian dollars)

2. Basis of Presentation (continued)

(d) Use of estimates and judgments

When preparing the financial statements, the Corporation's management undertakes a number of judgments, estimates and assumptions about recognition and measurement of amounts recorded in the financial statements and related notes.

Information about the significant judgments, estimates and assumptions that have the most significant effect on the recognition and measurement of assets, liabilities, income and expenses is as follows:

- Inventory impairment, including loss and obsolescence
- Supplier rebate estimates
- Goodwill, property, plant and equipment and intangible assets impairment
- Lease classification
- Current and deferred tax assets and liability estimates
- Provisions, contingent liabilities and contingent assets estimates
- Share-based payment measurement
- Allowance for doubtful accounts estimate
- Employee benefits estimates

For additional information on these items, please refer to Note 2 (d) of the interim consolidated financial statements for the quarter ended March 27, 2011. There were no significant changes for the quarters ended June 26, 2011 and June 27, 2010.

These estimates are based on management's best knowledge of current events and actions that the Corporation may undertake in the future. The estimates and underlying assumptions are reviewed on a regular basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Actual results may differ from those estimates.

(e) Seasonal fluctuations

The interim period results of operations do not necessarily reflect results for the full year because of seasonal fluctuations that characterize the hardware, home improvement and gardening products industry. Since the seasonal fluctuations result in significant variances for certain assets and liabilities, a Statement of Financial Position as at June 27, 2010 is also presented for comparative purposes.

(f) Fiscal year

The Corporation's fiscal year includes 52 weeks and ends on the last Sunday of December.

(g) Comparative figures

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

RONA inc.

Notes to Interim Consolidated Financial Statements

as at June 26, 2011 and June 27, 2010

(Unaudited and in thousands of Canadian dollars)

2. Basis of Presentation (continued)

(h) Effect of new accounting standards issued but not yet effective

In November 2009, the IASB issued a new standard, IFRS 9, *Financial Instruments*, that replaces IAS 39, *Financial Instruments: Recognition and Measurement*. The standard provides guidance on the classification and measurement of financial assets. In October 2010, the IASB amended IFRS 9 to add guidance on the classification and measurement of financial liabilities, and requirements for the derecognition of financial assets and financial liabilities.

In May 2011, the IASB issued the following new standards:

IFRS 10, *Consolidated financial statements*, replacing parts of IAS 27, *Consolidated and separate financial statements*, and SIC-12, *Consolidation – special purpose entities*, presents a new definition of control based on principles applicable to all issuers for determining the basis for consolidation. The standard provides a framework for the preparation of consolidated statements based on the principle of control.

IFRS 11, *Joint arrangements*, replaces IAS 31, *Interests in joint ventures*, and SIC-13, *Jointly controlled entities – non-monetary contributions by venturers*. IFRS 11 differs from prior standards in certain respects, among them, that the proportional method for accounting for interests in jointly controlled entities is no longer permitted.

IFRS 12, *Disclosure of interests in other entities*, is a new standard providing guidance on minimum disclosure requirements for interests in other entities held by a reporting entity. Disclosure requirements for interests in subsidiaries, joint arrangements, associates and special purpose entities excluded from the consolidation, currently found in separate applicable standards are combined into one comprehensive standard.

In June 2011, the IASB issued an amended version of IAS 19, *Employee benefits*, to eliminate the corridor method that defers the recognition of gains and losses, to replace the expected rate of return on assets used to determine the defined benefit cost by the liability discount rate, to streamline the presentation of changes in assets and liabilities arising from defined benefit plans and to enhance the disclosure requirements for defined benefit plans.

These standards are effective for annual periods beginning on or after January 1, 2013. The Corporation is determining the effect of adopting these new requirements on its consolidated financial statements.

Certain other standards were issued but have no impact on the Corporation.

3. Significant Accounting Policies

The Corporation's IFRS accounting policies presented in Note 3 of the interim financial statements for the quarter ended March 27, 2011 were applied in preparing the interim consolidated financial statements for the twenty-six-week periods ended June 26, 2011 and June 27, 2010.

RONA inc.
Notes to Interim Consolidated Financial Statements
as at June 26, 2011 and June 27, 2010
(Unaudited and in thousands of Canadian dollars)

4. Revenues

	Second Quarter		Year-to-date	
	2011	2010	2011	2010
Sales of goods	\$ 1,351,268	\$ 1,384,287	\$ 2,256,564	\$ 2,326,744
Rendering of services	11,352	12,453	19,750	21,942
Royalties received	7,426	7,479	11,943	12,453
Total revenues	\$ 1,370,046	\$ 1,404,219	\$ 2,288,257	\$ 2,361,139

5. Inventory

For the thirteen and twenty-six-week periods ended June 26, 2011, an amount of \$990,600 and \$1,638,054 in inventory was expensed in the income statement (\$1,008,839 and \$1,676,484 in 2010).

For the thirteen and twenty-six-week periods ended June 26, 2011, an inventory write-down charge of \$7,840 and \$14,679 (\$9,759 and \$17,343 in 2010) was recognized in the consolidated income statement. No reversal of previous write-downs was recognized.

6. Supplemental Revenue and Expense Information

6.1 Operating profit

	Second Quarter		Year to date	
	2011	2010	2011	2010
Revenues	\$ 1,370,046	\$ 1,404,219	\$ 2,288,257	\$ 2,361,139
Cost of sales (Note 5)	(990,600)	(1,008,839)	(1,638,054)	(1,676,484)
Gross profit	379,446	395,380	650,203	684,655
Selling, general and administrative expenses	(322,331)	(298,796)	(617,775)	(584,480)
Net gains on disposal of assets	654	1,000	1,128	1,093
Other income	4,716	5,704	9,324	10,197
Operating profit	\$ 62,485	\$ 103,288	\$ 42,880	\$ 111,465

6.2 Depreciation, amortization and impairment of non-financial assets

	Second Quarter		Year-to-date	
	2011	2010	2011	2010
Depreciation of property, plant and equipment	\$ 20,439	\$ 23,384	\$ 39,667	\$ 40,401
Depreciation of leasehold property included in property, plant and equipment	278	375	1,243	1,006
Amortization of intangible assets	5,202	4,324	11,163	12,008
Amortization of other non-current assets	143	428	286	663
Total depreciation, amortization and impairment of non-financial assets	\$ 26,062	\$ 28,511	\$ 52,359	\$ 54,078

RONA inc.

Notes to Interim Consolidated Financial Statements

as at June 26, 2011 and June 27, 2010

(Unaudited and in thousands of Canadian dollars)

6. Supplemental Revenue and Expense Information (continued)

6.3 Employee benefits expense

	Second Quarter		Year-to-date	
	2011	2010	2011	2010
Salaries	\$ 125,856	\$ 114,004	\$ 248,888	\$ 227,422
Defined benefit expense	386	460	757	528
Defined contribution expense	2,375	2,796	4,601	5,139
Stock-based compensation expense (recovery)	(654)	1,369	(1,301)	2,879
Other fringe benefits	25,774	24,397	54,498	50,392
Total employee benefits expense	\$ 153,737	\$ 143,026	\$ 307,443	\$ 286,360

7. Income Tax

The consolidated effective tax rate for continuing operations was 28.00% for the thirteen and twenty-six-week periods ended June 26, 2011 and 29.85% for the thirteen and twenty-six-week periods ended June 27, 2010. The effective income tax rate change is primarily attributable to the change in the Corporation's combined statutory income tax rate.

In interim periods, the income tax provision is based on an estimate of earnings for the year by jurisdiction. The estimated average annual effective income tax rates are re-estimated at each interim reporting date, based on full year projections of earnings by jurisdiction. To the extent that forecasts differ from actual results, adjustments are recognized in subsequent periods.

8. Business Acquisitions

On April 11, 2011, the Corporation acquired the assets of Duncan Pacific, located on Vancouver island in British Columbia. This dealer, operating in the retail and commercial segment, has four outlets with major lumberyards in Duncan, Nanaimo, Campbell River and Cobble Hill.

On January 31, 2011, the Corporation acquired the assets of La Boutique Plomberie Décoration 25 inc. in Quebec. The company is a retailer of basic and finishing plumbing products. The company operates in the retail and commercial segment.

On January 24, 2011, the Corporation acquired the minority interests in the assets of a store previously held by one of its 51%-owned subsidiaries. This transaction resulted in a \$490 increase in goodwill with a corresponding change in non-controlling interests.

During the twenty-six-week period ended June 27, 2010, the Corporation acquired four companies in the retail and commercial segment through share or asset purchases.

RONA inc.

Notes to Interim Consolidated Financial Statements

as at June 26, 2011 and June 27, 2010

(Unaudited and in thousands of Canadian dollars)

8. Business Acquisitions (continued)

These acquisitions were for a total consideration of \$21,662 (\$50,271 in 2010). Direct acquisition costs of \$424 were recognized in selling, general and administrative expenses for the twenty-six-week period ended June 26, 2011 (\$910 in 2010). The Corporation financed these acquisitions 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:

	2011	2010
Trade and other receivables	\$ 1,157	\$ 11,228
Inventory	11,216	12,954
Other current assets	5	195
Property, plant and equipment	5,333	1,988
Goodwill on acquisition	7,375	39,919
Intangible assets	30	418
Deferred tax assets	-	1,024
Current liabilities	(3,454)	(17,424)
Long-term debt	-	(31)
Cost of acquisitions	21,662	50,271
Issuance of common shares	-	(35,722)
Less: Balances of purchase prices	(7,467)	(4,401)
Cash consideration paid	\$ 14,195	\$ 10,148

The Corporation expects that an amount of \$5,899 (\$1,344 in 2010) of goodwill will be deductible for tax purposes.

Trade and other receivables have been recognized at fair value, which was not materially different from gross contractual amounts receivable or expected receipts.

Preliminary purchase price allocations related to the acquisitions may be subject to adjustment pending completion of the final valuations.

9. Vendor Rebates

For the twenty-six-week period ended June 26, 2011, the Corporation recognized \$5,728 (\$5,962 in 2010) for which the conditions for receiving the vendor rebates have not all been fulfilled. The amount was estimated on the basis that the necessary conditions for obtaining the rebates are satisfied.

RONA inc.
Notes to Interim Consolidated Financial Statements
as at June 26, 2011 and June 27, 2010
(Unaudited and in thousands of Canadian dollars)

10. Non-current Assets Held for Sale

The Corporation intends to dispose of property, plant and equipment held for sale within one year. These are primarily land and buildings in the retail and commercial segment which are no longer used in operations and for which the Corporation has established a detailed plan to sell.

The change in non-current assets held for sale is as follows:

	2011 As at June 26
Balance, December 26, 2010	\$ 16,474
Additions	5,632
Disposals	(3,296)
Balance, June 26, 2011	\$ 18,810

	2010 As at June 27
Balance, December 27, 2009	\$ 11,080
Additions	3
Balance, June 27, 2010	\$ 11,083

	2010 As at December 26
Balance, December 27, 2009	\$ 11,080
Additions	10,089
Disposals	(500)
Reclassification to property, plant and equipment	(4,195)
Balance, December 26, 2010	\$ 16,474

	2011 As at June 26	2010 As at June 27	2010 As at December 26
Non-current assets held for sale			
Land	\$ 16,699	\$ 9,558	\$ 15,427
Buildings	2,111	1,525	1,047
	\$ 18,810	\$ 11,083	\$ 16,474

RONA inc.

Notes to Interim Consolidated Financial Statements

as at June 26, 2011 and June 27, 2010

(Unaudited and in thousands of Canadian dollars)

11. Provisions, Contingent Liabilities and Contingent Assets

	Litigation	Onerous contracts	Product warranties	Total
Balance, December 26, 2010	\$ 3,222	\$ 5,757	\$ 185	\$ 9,164
Provisions created during the period	814	–	336	1,150
Provisions used during the period	(391)	(665)	(59)	(1,115)
Provisions reversed during the period	(730)	–	(212)	(942)
Accretion expense	–	191	–	191
Balance, June 26, 2011	2,915	5,283	250	8,448
Current	2,915	1,632	250	4,797
Non-current	–	3,651	–	3,651
	\$ 2,915	\$ 5,283	\$ 250	\$ 8,448

	Litigation	Onerous contracts	Product warranties	Total
Balance, December 27, 2009	\$ 3,004	\$ 14,340	\$ 420	\$ 17,764
Provisions created during the period	791	–	833	1,624
Provisions used during the period	(287)	(9,890)	(1,092)	(11,269)
Provisions reversed during the period	(953)	–	659	(294)
Balance, June 27, 2010	2,555	4,450	820	7,825
Current	2,555	711	820	4,086
Non-current	–	3,739	–	3,739
	\$ 2,555	\$ 4,450	\$ 820	\$ 7,825

	Litigation	Onerous contracts	Product warranties	Total
Balance, December 27, 2009	\$ 3,004	\$ 14,340	\$ 420	\$ 17,764
Provisions created during the period	2,887	1,923	2,003	6,813
Provisions used during the period	(887)	(7,994)	(1,377)	(10,258)
Provisions reversed during the period	(1,782)	(2,944)	(861)	(5,587)
Accretion expense	–	432	–	432
Balance, December 26, 2010	3,222	5,757	185	9,164
Current	3,222	1,218	185	4,625
Non-current	–	4,539	–	4,539
	\$ 3,222	\$ 5,757	\$ 185	\$ 9,164

RONA inc.

Notes to Interim Consolidated Financial Statements

as at June 26, 2011 and June 27, 2010

(Unaudited and in thousands of Canadian dollars)

11. Provisions, Contingent Liabilities and Contingent Assets (Continued)

Various claims and litigation arise in the course of the Corporation's activities and its insurers have taken up the Corporation's defence in some of these cases.

The litigation period depends on the negotiation procedures. Provisions are recognized based on best estimates of the resolution of the litigation. Management does not expect that the outcome of these claims and litigation will have a material and adverse effect on the Corporation's results and deemed its allowances adequate in this regard.

In 2008, the Corporation's management approved a detailed closure plan for two stores in the retail and commercial segment. One store was closed during 2008 and the second during the second quarter of 2009. Following the closures, a provision for onerous contracts was recognized for non-cancellable operating leases for commercial stores it no longer used at a 5.35% discount rate. The provisions were estimated using market data and contractual obligations at the time of initial recognition. In 2010, an agreement was reached with one lessor to cancel the lease. The lease, which is still in effect, expires in 2024.

Guarantee provisions relate to private brand products and are estimated using historical data on similar product guarantees. Management forecasts indicate that most of the provision will be supported in the following periods.

RONA inc.

Notes to Interim Consolidated Financial Statements

as at June 26, 2011 and June 27, 2010

(Unaudited and in thousands of Canadian dollars)

12. Guarantees

In the ordinary course of business, the Corporation reaches agreements that could meet the definition of "guarantees".

The Corporation guarantees mortgages for an amount of \$389. 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 \$5,463.

Pursuant to the terms of inventory repurchase agreements, the Corporation is committed towards financial institutions to buy back the inventory of certain customers at an average of 62% of the cost of the inventories to a maximum of \$48,067. In the event of recourse, this inventory would be sold in the ordinary course of the Corporation's operations. These agreements have undetermined periods but may be cancelled by the Corporation 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.

13. Share Capital

Authorized

Unlimited number of shares

Common without par value

Class A preferred shares, without par value, issuable in series

Series 5, non-cumulative dividend equal to 70% of prime rate, redeemable, at the Corporation's option, at their issuance price

Series 6, cumulative dividend of 5.25% fixed for the first five years, redeemable, at the Corporation's option, at their issuance price

Class B preferred shares, 6% non-cumulative dividend, redeemable, at the Corporation's option, at their par value of \$1 each

Class C preferred shares, issuable in series

Series 1, non-cumulative dividend equal to 70% of prime rate, redeemable, at the Corporation's option, at their par value of \$1,000 each

Class D preferred shares, without par value, 4% cumulative dividend, redeemable, at the Corporation's option, at their issuance price. Since 2003, they are redeemable at their issuance price over a maximum period of ten years on the basis of 10% per year.

RONA inc.

Notes to Interim Consolidated Financial Statements

as at June 26, 2011 and June 27, 2010

(Unaudited and in thousands of Canadian dollars)

13. Share Capital (continued)

Issued and fully paid:

The following table presents changes in the number of outstanding shares and their carrying amount:

	Common shares		Preferred shares		Treasury shares		Deposits on common share subscriptions ^(a)		Share capital	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance, December 26, 2010	130,071,782	\$ 630,264	–	\$ –	(73,334)	\$ (424)	–	\$ 2,774	129,998,448	\$ 632,614
Issuance in exchange for cash	7,234	100	6,900,000	172,500	–	–	–	–	6,907,234	172,600
Issuance under stock option plans	147,575	1,362	–	–	–	–	–	–	147,575	1,362
Issuance in exchange for common share subscription deposits	193,683	2,749	–	–	(3,647)	(51)	–	(2,698)	190,036	–
Deposits on common share subscriptions received	–	–	–	–	–	–	–	1,240	–	1,240
Deposits on common share subscriptions refunded	–	–	–	–	–	–	–	(75)	–	(75)
Balance, June 26, 2011	130,420,274	\$ 634,475	6,900,000	\$ 172,500	(76,981)	\$ (475)	–	\$ 1,241	137,243,293	\$ 807,741

(a) Deposits on common share subscriptions represent amounts received during the period from affiliated and franchised dealers 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 26, 2011, the number of outstanding common shares would have increased by 104,179.

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13. Share Capital (continued)**Issued and fully paid (continued):**

The following table presents changes in the number of outstanding shares and their carrying amount:

	Common shares		Treasury shares		Deposits on common share subscriptions ^(a)		Share capital	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance, December 27, 2009	129,653,383	\$ 600,459	(80,251)	\$ (524)	–	\$ 3,821	129,573,132	\$ 603,756
Issuance in exchange for cash	2,037	33	–	–	–	–	2,037	33
Issuance under stock option plans	32,775	151	–	–	–	–	32,775	151
Issuance as payment for a business acquisition	2,230,067	35,722	–	–	–	–	2,230,067	35,722
Issuance in exchange for common share subscription deposits	250,979	3,842	6,917	(51)	–	(3,791)	257,896	–
Redemption of common shares	(293,200)	(1,419)	–	–	–	–	(293,200)	(1,419)
Deposits on common share subscriptions received	–	–	–	–	–	1,413	–	1,413
Deposits on common share subscriptions refunded	–	–	–	–	–	(28)	–	(28)
Other	–	–	–	151	–	–	–	151
Balance, June 27, 2010	131,876,041	\$ 638,788	(73,334)	\$ (424)	–	\$ 1,415	131,802,707	\$ 639,779

(a) Deposits on common share subscriptions represent amounts received during the period from affiliated and franchised dealers 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.

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13. Share Capital (continued)**Issued and fully paid (continued):**

The following table presents changes in the number of outstanding shares and their carrying amount:

	Common shares		Treasury shares		Deposits on common share subscriptions ^(a)		Share capital	
	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount	Number of shares	Amount
Balance, December 27, 2009	129,653,383	\$ 600,459	(80,251)	\$ (524)	–	\$ 3,821	129,573,132	\$ 603,756
Issuance in exchange for cash	27,895	370	–	–	–	–	27,895	370
Issuance under stock option plans	139,525	661	–	–	–	–	139,525	661
Issuance as payment for a business acquisition	2,230,067	35,722	–	–	–	–	2,230,067	35,722
Issuance in exchange for common share subscription deposits	250,979	3,842	(3,381)	(51)	–	(3,791)	247,598	–
Redemption of common shares	(2,230,067)	(10,790)	–	–	–	–	(2,230,067)	(10,790)
Deposits on common share subscriptions received	–	–	–	–	–	2,772	–	2,772
Deposits on common share subscription refunded	–	–	–	–	–	(28)	–	(28)
Other	–	–	10,298	151	–	–	10,298	151
Balance, December 26, 2010	130,071,782	\$ 630,264	(73,334)	\$ (424)	–	\$ 2,774	129,998,448	\$ 632,614

(a) Deposits on common share subscriptions represent amounts received during the period from affiliated and franchised dealers 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 December 26, 2010, the number of outstanding common shares would have increased by 199,123.

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14. Stock-based Compensation

Stock option plans

Stock option plan of May 1, 2002

On May 1, 2002, the Corporation adopted a stock option plan for designated senior executives pursuant to which options for a maximum of 3,740,000 common shares may be granted. Options granted under the plan may be exercised since the Corporation made a public share offering on November 5, 2002. As at June 26, 2011, the exercise price of the 2,920,000 options granted upon adoption of the plan is \$3.47 and of this number, 1,855,000 options were exercised (1,675,500 options in 2010).

The fair value of each option granted was estimated at the grant date using the Black-Scholes option pricing model.

No compensation cost was expensed with respect to this plan for the thirteen and twenty-six-week periods ended June 26, 2011 and June 27, 2010.

Stock option plan of October 24, 2002

Since October 24, 2002, the Corporation has another stock option plan for designated senior executives of the Corporation 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.

Modifications were adopted by the Board of Directors on March 8, 2007, whereby the most appropriate terms and conditions relative to each type of grant could be adopted. Since March 8, 2007, the Board has approved option grants with vesting over a four-year period following the anniversary date of the grants at 25% per year. In addition as a result of these modifications, the plan is no longer applicable to the designated directors of the Corporation.

As at June 26, 2011, the 3,182,352 options granted (2,857,452 options in 2010) have exercise prices ranging from \$10.62 to \$26.87 in 2011 and 2010 and of this number, 169,475 options have been exercised (94,650 options in 2010), 619,758 options have expired (606,576 options in 2010) and 644,650 options have been forfeited (419,650 options in 2010).

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14. Stock-based Compensation (continued)

Stock option plans (continued)

Stock option plan of October 24, 2002 (continued)

The weighted average fair value of stock options granted of \$4.95 (\$4.57 in 2010) was estimated for each option tranche at the grant date using the Black-Scholes option pricing model on the basis of the following weighted average assumptions for the options granted during the period:

	2011	2010
Share price at date of grant	\$ 14.26	\$ 15.61
Risk-free interest rate	2.92 to 3.35 %	1.83 to 2.90 %
Expected share price volatility	27.60 to 28.13 %	28.5 to 31.6 %
Expected dividend rate	1.00 %	0 %
Expected life	7 to 10 years	3 to 6 years
Exercise price at date of grant	\$ 14.33	\$ 15.44

The expected volatility is estimated for each award tranche, taking into account the average historical volatility of the share price over a period that is commensurate with the expected term of the options granted.

Compensation cost expensed with respect to this plan amounts to \$259 and \$517 for the thirteen and twenty-six-week periods ended June 26, 2011 (\$303 and \$606 in 2010).

A summary of the situation of the Corporation's stock option plans and the changes that occurred during the period is presented below:

	2011 As at June 26	
	Options	Weighted average exercise price
Outstanding, beginning of period	2,727,794	\$ 9.99
Granted	324,900	14.33
Exercised	(147,575)	7.31
Forfeited	(91,650)	15.37
Outstanding, end of period	2,813,469	10.46
Options exercisable, end of period	2,058,444	\$ 9.26

The weighted average price of the common shares acquired by option holders having exercised 147,575 options (32,775 options in 2010) for the twenty-six-week period ended June 26, 2011 is \$12.91 (\$15.50 in 2010).

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14. Stock-based Compensation (continued)

Stock option plans (continued)

	2010 As at June 27	
	Options	Weighted average exercise price
Outstanding, beginning of period	2,966,852	\$ 10.47
Granted	381,700	15.44
Exercised	(32,775)	4.22
Expired	(318,576)	21.52
Forfeited	(16,125)	12.59
Outstanding, end of period	2,981,076	9.98
Options exercisable, end of period	2,080,969	\$ 8.36

	2010 As at December 26	
	Options	Weighted average exercise price
Outstanding, beginning of period	2,966,852	\$ 10.47
Granted	381,700	15.44
Exercised	(139,525)	4.30
Expired	(331,758)	21.53
Forfeited	(149,475)	13.04
Outstanding, end of period	2,727,794	9.99
Options exercisable, end of period	1,968,644	\$ 8.57

The following table summarizes information relating to stock options outstanding as at June 26, 2011:

Exercise price	Expiration date	Number of options outstanding	Number of options exercisable
\$3.47	January 1, 2012	1,065,000	1,065,000
\$10.62	March 11, 2019	373,850	186,200
\$14.18	March 1, 2018	162,250	124,350
\$14.29	December 16, 2013	378,900	378,900
\$14.33	March 7, 2021	308,600	-
\$15.44	March 9, 2020	301,950	81,075
\$20.27	December 22, 2014	89,750	89,750
\$21.78	September 1, 2016	4,394	4,394
\$23.58	March 8, 2017	128,775	128,775
		2,813,469	2,058,444

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14. Stock-based Compensation (continued)

Share unit plan for officers

The Corporation offers a share unit plan to officers and key employees of the Corporation 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 value at the end of each reporting period until the vesting date using the market price of the Corporation's common shares. Fair value changes are accounted for as compensation expense with a corresponding charge to trade and other payables. RSUs that have been vested will be payable, at the Corporation's option, in cash or common shares, purchased on the secondary market, with an aggregate value equal to the amount that would otherwise have been paid in cash.

	Second Quarter		Year-to-date	
	2011	2010	2011	2010
Number of restricted share units:				
Outstanding, beginning of period	1,196,625	1,121,340	935,325	682,540
Granted	-	-	390,000	438,800
Expired	-	-	(113,000)	-
Forfeited	(71,500)	-	(87,200)	-
Outstanding, end of period	1,125,125	1,121,340	1,125,125	1,121,340

For the thirteen and twenty-six-week periods ended June 26, 2011, recoveries of \$725 and \$1,937 were recorded in the consolidated income statement (expenses of \$839 and \$1,755 in 2010).

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14. Stock-based Compensation (continued)

Share unit plan for directors

The Corporation 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 Corporation 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 Corporation during the five trading days immediately preceding the last day of each reporting period of the Corporation. Fair market value changes are accounted for as a compensation expense with a corresponding charge to trade and other payables in the consolidated statement of financial position. DSUs granted under this plan are redeemable and the value of the units is payable only when the unitholder ceases to be a director.

	Second Quarter		Year-to-date	
	2011	2010	2011	2010
Number of deferred share units:				
Outstanding, beginning of period	187,262	161,108	172,781	149,139
Granted	15,166	11,390	29,647	23,359
Units paid	–	(13,354)	–	(13,354)
Outstanding, end of period	202,428	159,144	202,428	159,144

The expenses (recovery) recorded in the consolidated income statement for the thirteen and twenty-six-week periods ended June 26, 2011 were (\$188) and \$119 (\$227 and \$518 in 2010).

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15. Segment Information

	Second Quarter					
	2011			2010		
	Retail and commercial	Distribution	Total	Retail and commercial	Distribution	Total
Segment revenues	\$ 1,026,419	\$ 694,027	\$ 1,720,446	\$ 1,067,360	\$ 724,813	\$ 1,792,173
Intersegment revenues and royalties	-	(350,400)	(350,400)	-	(387,954)	(387,954)
Revenues from external customers	1,026,419	343,627	1,370,046	1,067,360	336,859	1,404,219
Income before finance costs, amortization, depreciation and impairment of non-financial assets and income tax expense	73,281	16,606	89,887	107,454	25,598	133,052
Finance income			(1,340)			(1,253)
Amortization, depreciation and impairment of non-financial assets			(26,062)			(28,511)
Operating profit			62,485			103,288
Finance income			1,340			1,253
Finance costs			(6,751)			(6,064)
Income before income tax expense			\$ 57,074			\$ 98,477

The above information is reported regularly to the chief operating decision maker, the President and Chief Executive Officer.

RONA inc.

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15. Segment Information (continued)

	Year-to-date					
	2011			2010		
	Retail and commercial	Distribution	Total	Retail and commercial	Distribution	Total
Segment revenues	\$ 1,674,750	\$ 1,245,319	\$ 2,920,069	\$ 1,758,799	\$ 1,280,770	\$ 3,039,569
Intersegment revenues and royalties	-	(631,812)	(631,812)	-	(678,430)	(678,430)
Revenues from external customers	1,674,750	613,507	2,288,257	1,758,799	602,340	2,361,139
Income before finance costs, amortization, depreciation and impairment of non-financial assets and income tax expense	69,742	28,208	97,950	126,693	41,117	167,810
Finance income			(2,711)			(2,267)
Amortization, depreciation and impairment of non-financial assets			(52,359)			(54,078)
Operating profit			42,880			111,465
Finance income			2,711			2,267
Finance costs			(13,038)			(11,485)
Income before income tax expense			\$ 32,553			\$ 102,247

The above information is reported regularly to the chief operating decision maker, the President and Chief Executive Officer.

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16. Earnings per Share

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

	Second Quarter		Year-to-date	
	2011	2010	2011	2010
Net earnings attributable to owners of RONA inc.	\$ 39,496	\$ 66,272	\$ 22,735	\$ 69,313
Dividends on preferred shares, including related income taxes	(2,469)	–	(3,276)	–
Net earnings attributable to participating shares	37,027	66,272	19,459	69,313
Number of shares (in thousands)				
Weighted average number of shares used to compute basic net earnings per share attributable to owners of RONA inc.	130,267.4	130,011.5	130,234.0	129,918.9
Effect of dilutive stock options ^(a)	890.5	1,175.0	922.0	1,169.2
Weighted average number of shares used to compute diluted net earnings per share attributable to owners of RONA inc.	131,157.9	131,186.5	131,156.0	131,088.1
Net earnings per share attributable to owners of RONA inc. – basic and diluted	\$ 0.28	\$ 0.51	\$ 0.15	\$ 0.53

(a) As at June 26, 2011, 1,212,369 common share stock options (634,751 options in 2010) were excluded from the calculation of diluted net earnings per share attributable to the Corporation's owners since these options have an antidilutive effect.

17. Related party transactions

Transactions with subsidiaries and joint ventures

RONA inc. is the party that exercises ultimate control of the Corporation.

Transactions between the Corporation and its subsidiaries, that are related parties, are eliminated in consolidation and are not presented in this note.

Transactions between the Corporation and its joint ventures, that are related parties, that were not eliminated in consolidation, are summarized below:

	Year-to-date	
	2011	2010
Sales of merchandise	\$ 19,855	\$ 37,869
Leases	824	872
Trade and other receivables	5,574	4,984

Unless otherwise indicated, none of the transactions contain special characteristics or conditions.

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17. Related party transactions (continued)

Transactions with subsidiaries and joint ventures (continued)

The Corporation's main subsidiaries, which are all Canadian, are listed below:

	2011	2010
RONA Revy inc.	100%	100%
Totem Building Supplies Ltd.	100%	100%
4536631 Canada inc.	100%	100%
4338553 Canada inc.	100%	100%
7594828 Canada inc.	100%	–
Buildrite Centres inc.	100%	100%
220 Real Estate Limited Partnership	100%	100%

18. First-time Adoption of IFRS

The current interim consolidated financial statements were prepared in accordance with IFRS. The date of transition to IFRS is December 28, 2009.

The Corporation's IFRS accounting policies presented in note 3 of the interim financial statements for the quarter ended March 27, 2011 have been applied in preparing the interim consolidated financial statements for the twenty-six-week periods ended June 26, 2011 and June 27, 2010.

The Corporation has applied IFRS 1 in preparing the consolidated statement of financial position as at the transition date. The effects of the transition to IFRS on equity, comprehensive income and reported cash flows are presented and further explained in the tables of this note.

First-time Adoption exceptions and exemptions

Upon transition, IFRS 1 requires certain mandatory exceptions and permits certain optional exemptions to retrospective application.

The following mandatory exceptions apply to the Corporation:

- The estimates used by the Corporation under IFRS on the date of transition to IFRS and for the comparative period are consistent with the estimates used under GAAP at the same date, adjusted for accounting policy differences where necessary;
- Transactions entered into before the date of transition to IFRS were not retrospectively designated as hedges;
- The Corporation will prospectively attribute total comprehensive income to the owners of the Corporation and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance;
- The Corporation will apply the derecognition provisions in IAS 39, *Financial Instruments: Recognition and Measurement* prospectively for transactions occurring on or after the date of transition as permitted by an amendment to IFRS 1 issued in October 2010 and early-applied as of December 28, 2009.

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18. First-time Adoption of IFRS (continued)

First-time Adoption exceptions and exemptions (continued)

The Corporation adopted the following exemptions at the date of transition:

- The Corporation has elected not to apply IFRS 3, *Business Combinations* retrospectively to business combinations that occurred before the date of transition. See note 18.3 for an explanation of the effect of this exemption;
- The Corporation has elected to recognize all cumulative actuarial gains and losses for its defined benefit plans at the date of transition. From the date of transition, the Corporation's accounting policy is to use the 'corridor' approach and split actuarial gains and losses into an unrecognized and a recognized portion. Further, the Corporation has elected to use the exemption not to disclose defined benefit plan surplus/deficit and experience adjustments before the date of transition (see note 18.7);
- The Corporation has elected not to apply retrospectively the recognition of borrowing costs relating to qualifying assets. It has derecognized borrowing costs included in construction projects and certain software development projects at the date of transition (see notes 18.1(a) and 18.2);
- The Corporation has elected not to apply IFRS 2, *Share-based Payments* retrospectively, to options granted before November 7, 2002 and to options granted after November 7, 2002 that vested before the date of transition (see note 18.8).

Presentation differences

Certain presentation differences between GAAP and IFRS have no impact on reported income or total equity.

As shown in the following tables, some line items are described differently under IFRS compared to GAAP, although the assets and liabilities included in these line items are unaffected.

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18. First-time Adoption of IFRS (continued)

Reconciliation of equity

Equity as at December 26, 2010 and June 27, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

	Note	2010 As at December 26	2010 As at June 27
Equity under GAAP		\$ 1,921,610	\$ 1,882,423
Increase (decrease) in reported equity due to differences between GAAP and IFRS			
Property, plant and equipment – derecognition of certain costs capitalized to property, plant and equipment under GAAP but which do not meet the capitalization criteria under IFRS	18.1(a)	(16,279)	(14,535)
Property, plant and equipment – derecognition of interest capitalized during the site construction period	18.1(a)	(18,223)	(18,135)
Depreciation of property, plant and equipment – impact of disaggregation of certain items of property, plant and equipment and retrospective application of specific depreciation rates to each component	18.1(b)	2,814	1,992
Additional depreciation of property, plant and equipment to reflect the start of depreciation once the item of property, plant and equipment is available for use	18.1(b)	(3,201)	(2,923)
Impairment of assets – impairment of leasehold improvements	18.1(c)	(4,207)	(4,527)
Intangible assets – derecognition of interest capitalized during the implementation period of certain software	18.2	(1,832)	(1,940)
Goodwill – derecognition of acquisition costs	18.3	(3,494)	(804)
Goodwill – difference in value of shares issued to finance the acquisition	18.3	722	722
Leases – reversal of deferred gains on sale and leaseback transactions	18.4	10,179	10,752
Leases – reversal of deferred transaction costs to financial position relating to sale and leaseback transactions	18.4	(2,345)	(2,479)
Financial instruments – reversal of embedded derivatives recognized on some purchase orders	18.5	(1,905)	152
Provisions – adjustment of provision for onerous contract	18.6	(1,553)	–
Defined benefit plans – recognition of unamortized actuarial gains or losses on the date of transition and reclassification of a defined contribution plan as defined benefit plan	18.7	(13,428)	(11,820)
Defined benefit plans – impact of the maximum limit on an asset	18.7	(1,003)	(714)
Defined benefit plans – impact of minimum funding requirements	18.7	(4,959)	(6,104)
Consolidated financial statements – presentation of non-controlling interests in equity and impact of retaining non-controlling interests in subsidiaries with a deficit balance	18.9	35,920	35,375
Income taxes – income taxes on above adjustments	18.10	14,460	12,692
		(8,334)	(2,296)
Equity under IFRS		\$ 1,913,276	\$ 1,880,127

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18. First-time Adoption of IFRS (continued)

The total effect on the statement of financial position is presented in the following tables:

Former wording	Note	As at December 26, 2010			New wording
		GAAP	Effect of transition to IFRS	IFRS	
ASSETS					ASSETS
Current assets					Current
Cash		\$ 75,577	\$ –	\$ 75,577	Cash
Accounts receivable	18.1(a) / 18.1(d) / 18.3	303,836	(3,947)	299,889	Trade and other receivables
Inventory		905,467	–	905,467	Inventory
Prepaid expenses		17,955	–	17,955	Prepaid expenses
Derivative financial instruments	18.5	1,905	(1,905)	–	
Future income taxes	18.10	12,869	(12,869)	–	
		<u>1,317,609</u>	<u>(16,476)</u>	<u>1,301,133</u>	Current assets
Long-term assets					Non-current
Investments	18.1(d)	10,488	(844)	9,644	Other financial assets
Fixed assets	18.1(e)	918,273	(33,229)	885,044	Property, plant and equipment
Fixed assets held for sale	18.1(a)	20,177	(3,703)	16,474	Non-current assets held for sale
Goodwill	18.3	531,675	(2,581)	529,094	Goodwill
Intangible assets	18.1(d) / 18.2	118,747	9,476	128,223	Intangible assets
Other assets	18.2 / 18.4 / 18.7	31,043	(27,076)	3,967	Other non-current assets
Future income taxes	18.10	27,065	21,342	48,407	Deferred tax assets
		<u>\$ 2,975,077</u>	<u>\$ (53,091)</u>	<u>\$ 2,921,986</u>	Total assets

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18. First-time Adoption of IFRS (continued)

Former wording	Note	As at December 26, 2010			New wording
		GAAP	Effect of transition to IFRS	IFRS	
LIABILITIES					LIABILITIES
Current liabilities					Current
Bank loans		\$ 1,943	\$ –	\$ 1,943	Bank loans
Accounts payable and accrued liabilities	18.6 / 18.7	462,351	(8,185)	454,166	Trade and other payables
Dividends payable		9,119	–	9,119	Dividends payable
Income taxes payable		3,634	(255)	3,379	Current tax liabilities
Derivative financial instruments		1,653	–	1,653	Derivative financial instruments
	18.6	–	4,625	4,625	Provisions
Future income taxes	18.10	3,691	(3,691)	–	
Instalments on long-term debt		21,151	–	21,151	Instalments on long-term debt
		<u>503,542</u>	<u>(7,506)</u>	<u>496,036</u>	Current liabilities
Long-term liabilities					Non-current
Long-term debt		444,333	–	444,333	Long-term debt
Other long-term liabilities	18.4 / 18.7	33,121	(3,829)	29,292	Other non-current liabilities
	18.6	–	4,539	4,539	Provisions
Future income taxes	18.10	36,551	(2,041)	34,510	Deferred tax liabilities
Non-controlling interest	18.9	35,920	(35,920)	–	
		<u>1,053,467</u>	<u>(44,757)</u>	<u>1,008,710</u>	Total liabilities
Shareholders' equity					Equity
Capital stock	18.3	631,892	722	632,614	Share capital
Retained earnings		1,278,244	(43,311)	1,234,933	Retained earnings
Contributed surplus	18.8	11,474	(337)	11,137	Contributed surplus
Accumulated other comprehensive income	18.5	–	(1,217)	(1,217)	Accumulated other comprehensive income
		<u>1,921,610</u>	<u>(44,143)</u>	<u>1,877,467</u>	Total equity attributable to owners of RONA inc.
	18.9	–	35,809	35,809	Non-controlling interests
		<u>1,921,610</u>	<u>(8,334)</u>	<u>1,913,276</u>	Total equity
		<u>\$ 2,975,077</u>	<u>\$ (53,091)</u>	<u>\$ 2,921,986</u>	Total liabilities and equity

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18. First-time Adoption of IFRS (continued)

Former wording	Note	As at June 27, 2010			New wording
		GAAP	Effect of transition to IFRS	IFRS	
ASSETS					ASSETS
Current					Current
Cash		\$ 157,533	\$ –	\$ 157,533	Cash
Accounts receivable		367,441	(2,745)	364,696	Trade and other receivables
		–	2,545	2,545	Other financial assets
Income taxes receivable	18.10	2,738	(199)	2,539	Current tax assets
Inventory	18.5	942,338	(261)	942,077	Inventory
Prepaid expenses		31,405	–	31,405	Prepaid expenses
Derivative financial instruments		255	–	255	
Future income taxes	18.10	15,836	(15,836)	–	
		<u>1,517,546</u>	<u>(16,496)</u>	<u>1,501,050</u>	Current assets
Long-term assets					Non-current
Investments	18.1(d)	11,377	(850)	10,527	Other financial assets
Fixed assets	18.1(e)	865,495	(34,597)	830,898	Property, plant and equipment
Fixed assets held for sale	18.1(a)	13,564	(2,481)	11,083	Non-current assets held for sale
Goodwill	18.3	495,384	(82)	495,302	Goodwill
Intangible assets	18.2	103,119	9,766	112,885	Intangible assets
Other assets	18.2 / 18.4 / 18.7	31,029	(27,150)	3,879	Other non-current assets
Future income taxes	18.10	26,035	24,150	50,185	Deferred tax assets
		<u>\$ 3,063,549</u>	<u>\$ (47,740)</u>	<u>\$ 3,015,809</u>	Total assets

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18. First-time Adoption of IFRS (continued)

Former wording	Note	As at June 27, 2010			New wording
		GAAP	Effect of transition to IFRS	IFRS	
LIABILITIES					LIABILITIES
Current liabilities					Current
Bank loans		\$ 12,901	\$ –	\$ 12,901	Bank loans
Accounts payable and accrued liabilities	18.6 / 18.7	627,660	(8,114)	619,546	Trade and other payables
Derivative financial instruments	18.5	413	(413)	–	Derivative financial instruments
	18.6	–	4,086	4,086	Provisions
Future income taxes	18.10	4,299	(4,299)	–	
Instalments on long-term debt		12,463	–	12,463	Instalments on long-term debt
		657,736	(8,740)	648,996	Current liabilities
Long-term liabilities					Non-current
Long-term debt		424,795	–	424,795	Long-term debt
Other long-term liabilities	18.4 / 18.7	32,142	(4,790)	27,352	Other non-current liabilities
	18.6	–	3,739	3,739	Provisions
Future income taxes	18.10	31,078	(278)	30,800	Deferred tax liabilities
Non-controlling interest	18.9	35,375	(35,375)	–	
		1,181,126	(45,444)	1,135,682	Total liabilities
Shareholders' equity					Equity
Capital stock	18.3	639,057	722	639,779	Share capital
Retained earnings		1,232,450	(38,115)	1,194,335	Retained earnings
Contributed surplus	18.8	10,916	(337)	10,579	Contributed surplus
Accumulated other comprehensive income	18.5	–	227	227	Accumulated other comprehensive income
		1,882,423	(37,503)	1,844,920	Total equity attributable to owners of RONA inc.
	18.9	–	35,207	35,207	Non-controlling interests
		1,882,423	(2,296)	1,880,127	Total equity
		\$ 3,063,549	\$ (47,740)	\$ 3,015,809	Total liabilities and equity

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18. First-time Adoption of IFRS (continued)

Reconciliation of total comprehensive income

Total comprehensive income for the year ended December 26, 2010 and for the thirteen and twenty-six-week periods ended June 27, 2010 can be reconciled to the amounts reported under previous GAAP as follows:

	Note	2010	
		as at December 26 Year-to-date	as at June 27 Second Quarter Year-to-date
Comprehensive income under GAAP		\$ 143,221	\$ 67,832 \$ 70,855
Increase (decrease) in reported income due to differences between GAAP and IFRS			
Property, plant and equipment – derecognition of certain costs capitalized to property, plant and equipment under GAAP but which do not meet the capitalization criteria under IFRS	18.1(a)	(4,364)	(2,091) (2,617)
Property, plant and equipment – impact of derecognition of interest capitalized during the site construction period	18.1(a)	39	67 127
Depreciation of property, plant and equipment – impact of disaggregation of certain items of property, plant and equipment and retrospective application of specific depreciation rates to each component	18.1(b)	1,837	464 1,014
Additional depreciation of property, plant and equipment to reflect the start of depreciation once the item of property, plant and equipment is available for use	18.1(b)	(723)	(129) (445)
Impairment of assets – impact of impairment of leasehold improvements on depreciation	18.1(c)	556	108 235
Intangible assets – derecognition of interest capitalized during the implementation period of certain software	18.2	213	53 104
Goodwill – derecognition of acquisition costs	18.3	(4,062)	(651) (910)
Leases – reversal of deferred gains on sale and leaseback transactions, net of the reversal of related deferred transaction costs, to financial position	18.4	(879)	(220) (439)
Financial instruments – reversal of embedded derivatives recognized on some purchase orders	18.5	(652)	1,727 1,404
Provisions – adjustment of provision for onerous contract	18.6	(1,553)	– –
Defined benefit plans – impact of the recognition of unamortized actuarial gains or losses on the date of transition, impact of the maximum limit on an asset and impact of minimum funding requirements	18.7	(466)	81 286
Consolidated financial statements – impact of retaining non-controlling interests for subsidiaries with a deficit balance	18.9	111	(20) 168
Consolidated financial statements – elimination of non-controlling interests which are no longer deducted from comprehensive income		5,465	2,809 2,413
Income taxes – income taxes on above adjustments	18.10	1,505	(121) (152)
Income taxes – income taxes on other comprehensive income	18.5	483	(235) (90)
		(2,490)	1,842 1,098
Total comprehensive income under IFRS		\$ 140,731	\$ 69,674 \$ 71,953

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18. First-time Adoption of IFRS (continued)

The total effect on the statement of comprehensive income is presented in the following table:

Former wording	Note	For the year ended December 26, 2010			New wording
		GAAP	Effect of transition to IFRS	IFRS	
Sales	18.11	\$ 4,799,865	\$ 19,724	\$ 4,819,589	Revenues
Operating income	18.1 / 18.2 / 18.3 / 18.4 / 18.5 / 18.6 / 18.7 / 18.9	228,731	(6,703)	222,028	Operating profit
Finance income		4,394	–	4,394	Finance income
Interest on long-term debt and bank loans	18.1(a)	(22,521)	(1,540)	(24,061)	Finance costs
Earnings before income taxes and non-controlling interest		(18,127)	(1,540)	(19,667)	
Income taxes	18.10	210,604	(8,243)	202,361	Income before income tax expense
Earnings before non-controlling interest		(61,918)	1,505	(60,413)	Income tax expense
Non-controlling interest	18.9	148,686	(6,738)	141,948	
Net earnings		(5,465)	5,465	–	
Other comprehensive income, net of taxes:		143,221	(1,273)	141,948	Net income
Cash flow hedges					Other comprehensive income, net of taxes:
- profit (loss) for the period	18.5	–	(1,490)	(1,490)	Cash flow hedges
- reclassification to earnings	18.5	–	273	273	- income (loss) for the period
Comprehensive income		\$ 143,221	\$ (2,490)	\$ 140,731	- reclassification to income or loss
Comprehensive income attributable to:					Total comprehensive income
Shareholders	18.9	\$ 143,221	\$ (7,955)	\$ 135,266	Total comprehensive income attributable to:
		–	5,465	5,465	Owners of RONA inc.
		\$ 143,221	\$ (2,490)	\$ 140,731	Non-controlling interests

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18. First-time Adoption of IFRS (continued)

The total effect on the statement of comprehensive income is presented in the following table:

Former wording	Note	For the thirteen-week period ended June 27, 2010			New wording
		GAAP	Effect of transition to IFRS	IFRS	
Sales	18.11	\$ 1,398,163	\$ 6,056	\$ 1,404,219	Revenues
Operating income	18.1 / 18.2 / 18.3 / 18.4 / 18.5 / 18.7 / 18.9 / 18.11	104,079	(791)	103,288	Operating profit
Finance income		1,273	–	1,253	Finance income
Interest on long-term debt and bank loans	18.1(a)	(5,416)	(648)	(6,064)	Finance costs
		(4,163)	(648)	(4,811)	
Earnings before income taxes and non-controlling interest		99,916	(1,439)	98,477	Income before income tax expense
Income taxes	18.10	(29,275)	(121)	(29,396)	Income tax expense
Earnings before non-controlling interest		70,641	(1,560)	69,081	
Non-controlling interest	18.9	(2,809)	2,809	–	
Net earnings		67,832	1,249	69,081	Net income
Other comprehensive income, net of taxes:					Other comprehensive income, net of taxes:
Cash flow hedges					Cash flow hedges
- profit for the period	18.5	–	433	433	- income for the period
- reclassification to earnings	18.5	–	160	160	- reclassification to income or loss
Comprehensive income		\$ 67,832	\$ 1,842	\$ 69,674	Total comprehensive income
Comprehensive income attributable to:					Total comprehensive income attributable to:
Shareholders		\$ 67,832	\$ (967)	\$ 66,865	Owners of RONA inc.
	18.9	–	2,809	2,809	Non-controlling interests
		\$ 67,832	\$ 1,842	\$ 69,674	

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18. First-time Adoption of IFRS (continued)

The total effect on the statement of comprehensive income is presented in the following table:

Former wording	Note	For the twenty-six-week period ended June 27, 2010			New wording
		GAAP	Effect of transition to IFRS	IFRS	
Sales	18.11	\$ 2,349,590	\$ 11,549	\$ 2,361,139	Revenues
Operating income	18.1 / 18.2 / 18.3 / 18.4 / 18.5 / 18.7 / 18.9 / 18.11	112,207	(742)	111,465	Operating profit
Finance income		2,267	–	2,267	Finance income
Interest on long-term debt and bank loans	18.1(a)	(10,837)	(648)	(11,485)	Finance costs
		(8,570)	(648)	(9,218)	
Earnings before income taxes and non-controlling interest		103,637	(1,390)	102,247	Income before income tax expense
Income taxes	18.10	(30,369)	(152)	(30,521)	Income tax expense
Earnings before non-controlling interest		73,268	(1,542)	71,726	
Non-controlling interest	18.9	(2,413)	2,413	–	
Net earnings		70,855	871	71,726	Net income
Other comprehensive income, net of taxes:					Other comprehensive income, net of taxes:
Cash flow hedges					Cash flow hedges
- profit for the period	18.5	–	67	67	- income for the period
- reclassification to earnings	18.5	–	160	160	- reclassification to income or loss
Comprehensive income		\$ 70,855	\$ 1,098	\$ 71,953	Total comprehensive income
Comprehensive income attributable to:					Total comprehensive income attributable to:
Shareholders		\$ 70,855	\$ (1,315)	\$ 69,540	Owners of RONA inc.
	18.9	–	2,413	2,413	Non-controlling interests
		\$ 70,855	\$ 1,098	\$ 71,953	

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18. First-time Adoption of IFRS (continued)

Notes to reconciliation of equity and comprehensive income

18.1 Property, plant and equipment

(a) Derecognition of certain costs and borrowing costs capitalized to property, plant and equipment

Under GAAP, certain costs had been capitalized to the cost of property, plant and equipment which do not meet the criteria for capitalization under IFRS and consequently have been derecognized. This resulted in a decrease in the following line items:

	2010 As at December 26	2010 As at June 27
Property, plant and equipment	\$ (13,541)	\$ (12,803)
Non-current assets held for sale	(1,801)	(1,532)
Trade and other receivables	(937)	(200)
Impact of transition to IFRS	<u>\$ (16,279)</u>	<u>\$ (14,535)</u>

As a result, operating profit decreased by \$2,823 as at December 26, 2010 (\$1,443 and \$1,969, respectively, for the thirteen and twenty-six-week periods ended June 27, 2010) and financing costs increased by \$1,540 as at December 26, 2010 (\$648 for both the thirteen and twenty-six-week periods ended June 27, 2010).

At the date of transition, the Corporation elected to apply the IFRS 1 exemption on borrowing costs and derecognized all capitalized interest related to construction projects before the date of transition. This resulted in a decrease in the following line items:

	2010 As at December 26	2010 As at June 27
Property, plant and equipment	\$ (16,321)	\$ (17,186)
Non-current assets held for sale	(1,902)	(949)
Impact of transition to IFRS	<u>\$ (18,223)</u>	<u>\$ (18,135)</u>

Depreciation under IFRS is based on the adjusted amount, which results in a \$39 increase in operating profit for the year ended December 26, 2010 (\$67 and \$127, respectively, for the thirteen and twenty-six-week periods ended June 27, 2010).

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18. First-time Adoption of IFRS (continued)

Notes to reconciliation of equity and comprehensive income (continued)

18.1 Property, plant and equipment (continued)

(b) Depreciation and amortization

In order to comply with IFRS, the Corporation retrospectively amended the recognition of items of property, plant and equipment having different useful lives to recognize them separately. The Corporation therefore retrospectively calculated the depreciation of building components. As a result, the net carrying amount of property, plant and equipment increased by \$2,814 as at December 26, 2010 (\$1,992 as at June 27, 2010) and the depreciation expense decreased by \$1,837 for the year ended December 26, 2010 (\$464 and \$1,014 respectively, for the thirteen and twenty-six-week periods ended June 27, 2010).

Additionally, under IFRS, depreciation begins when the asset is available for use whereas under GAAP depreciation commences when the asset is utilized by the Corporation. This resulted in a \$3,201 decrease in property, plant and equipment as at December 26, 2010 (\$2,923 as at June 27, 2010) and a \$723 increase in the depreciation expense for the year ended December 26, 2010 (\$129 and \$445, respectively, for the thirteen and twenty-six-week periods ended June 27, 2010).

(c) Impairment losses recognized at the date of transition

The Corporation applied IAS 36, *Impairment of Assets*, in determining whether any impairment losses arose at the date of transition to IFRS.

GAAP uses a two-step approach for impairment testing to determine the recoverable amount. First, a recoverability test is performed by comparing the undiscounted expected future cash flows to be derived from the asset to its carrying amount. If the asset fails the recoverability test, then an impairment loss is calculated as the excess of the asset's carrying amount over its fair value. IFRS recognizes an impairment loss if the recoverable amount is less than the carrying amount. The recoverable amount is the higher of the asset's fair value less costs to sell and its value in use. Value in use is the present value of estimated future cash flows expected from continuing use of the asset.

Accordingly, as at December 26, 2010, a cumulative impairment loss of \$4,207 (\$4,527 as at June 27, 2010) was recognized to reduce the value of leasehold improvements to two stores in the retail and commercial store segment in a loss position and whose value in use determined using a pre-tax discount rate of 13.0% is below the carrying amount. Under IFRS, depreciation is calculated using the adjusted amount, thereby resulting in a \$556 decrease in depreciation expense for the year ended December 26, 2010 (\$108 and \$235, respectively, for the thirteen and twenty-six-week periods ended June 27, 2010).

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18. First-time Adoption of IFRS (continued)

Notes to reconciliation of equity and comprehensive income (continued)

18.1 Property, plant and equipment (continued)

(d) Presentation differences

A building leased to an affiliated dealer of the RONA group and used in the supply of goods has been classified as an item of property, plant and equipment rather than an investment property. An amount of \$844 as at December 26, 2010 (\$850 as at June 27, 2010) has therefore been reclassified from other financial assets to property, plant and equipment.

As at December 26, 2010 an amount of \$573 related to a project in progress was reclassified from trade and other receivables to property, plant and equipment (\$383) and intangible assets (\$190) (\$0 as at June 27, 2010).

(e) Summary of transition-related adjustments

Property, plant and equipment is adjusted as follows:

	Ref	2010 As at December 26	2010 As at June 27
Derecognition of certain costs capitalized to property, plant and equipment	a)	\$ (13,541)	\$ (12,803)
Derecognition of interest capitalized prior to transition date	a)	(16,321)	(17,186)
Disaggregation of certain items of property, plant and equipment and retrospective application of specific depreciation rates	b)	2,814	1,992
Additional depreciation once an item of property, plant and equipment is available for use	b)	(3,201)	(2,923)
Asset impairment – impairment loss on leasehold improvements	c)	(4,207)	(4,527)
Reclassification of a building leased to a dealer	d)	844	850
Reclassification of an amount related to a project in progress	d)	383	–
Impact of transition to IFRS		\$ (33,229)	\$ (34,597)

18.2 Intangible assets

The Corporation elected to apply the exemption in IFRS 1 for borrowing costs and derecognized all interest capitalized during the implementation period of certain software which commenced before the date of transition. This resulted in a \$1,832 reduction in intangible assets as at December 26, 2010 (\$1,940 as at June 27, 2010). Amortization under IFRS is based on the revalued amount, thereby resulting in a \$213 decrease in amortization expense for the year ended December 26, 2010 (\$53 and \$104, respectively, for the thirteen and twenty-six-week periods ended June 27, 2010).

For consistency with IFRS presentation, an amount of \$11,118 of dealer recruitment costs as at December 26, 2010 (\$11,706 as at June 27, 2010), has been reclassified from other non-current assets to intangible assets.

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18. First-time Adoption of IFRS (continued)

Notes to reconciliation of equity and comprehensive income (continued)

18.3 Goodwill and business combinations

The Corporation has elected to not restate business combinations that occurred before the date of transition. Consequently, the other specifications of the exemption were applied and no adjustment was required at transition for intangible assets included in goodwill or those which do not meet the criteria for capitalization under IFRS. At the date of transition and as at December 26, 2010, this goodwill was tested for impairment based on conditions prevailing at those dates, and no impairment was identified. The amount of goodwill recognized upon transition has therefore not been adjusted.

Acquisition costs associated with business combinations during the year ended December 26, 2010 were derecognized under IFRS. This resulted in a \$3,303 decrease in goodwill (\$804 as at June 27, 2010), a \$192 decrease in trade and other receivables (\$0 as at June 27, 2010), a \$4,062 decrease in operating profit for the year ended December 26, 2010 (\$651 and \$910, respectively, for the thirteen and twenty-six-week periods ended June 27, 2010) and a \$567 decrease in income tax expense (\$0 and \$107, respectively, for the thirteen and twenty-six-week periods ended June 27, 2010).

During the second quarter ended June 27, 2010, goodwill and share capital were increased by \$722 for the difference in the value of the Corporation's shares under IFRS issued to finance the business acquisition and their value under GAAP. Since these shares were issued as payment for a business combination, under GAAP, their value is based on market prices in effect several days preceding and following the closing date of the transaction. Under IFRS, shares issued for a business combination are valued using the fair value of the shares at the date of acquisition.

18.4 Leases

For all sale and leaseback transactions at fair value, which result in an operating lease for the lessee, all gains must be immediately recorded in income or loss under IFRS. Under GAAP, these gains were deferred and recorded in income over the lease term. As at December 26, 2010, other non-current liabilities were reduced by \$10,179 (\$10,752 as at June 27, 2010) and deferred transaction costs on sale and leaseback transactions recognized in other non-current assets were reduced by \$2,345 (\$2,479 as at June 27, 2010). Operating profit was reduced by \$879 for the year ended December 26, 2010 (\$220 and \$439, respectively, for the thirteen and twenty-six-week periods ended June 27, 2010).

18.5 Financial instruments

Under IFRS, 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 GAAP, entities could choose whether to account for embedded derivatives separately. Under GAAP, the Corporation had elected to account for them separately and, accordingly, derecognized \$1,905 in derivative financial instruments presented in assets as at December 26, 2010 (derecognized a liability of \$413 as at June 27, 2010), reduced inventory by \$0 (\$261 as at June 27, 2010), and decreased operating profit by \$652 for the year ended December 26, 2010 (increase of \$1,727 and \$1,404, respectively, for the thirteen and twenty-six-week periods ended June 27, 2010).

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18. First-time Adoption of IFRS (continued)

Notes to reconciliation of equity and comprehensive income (continued)

18.5 Financial instruments (continued)

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 Corporation introduced a cash flow hedge accounting strategy for IFRS purposes only. This resulted in a \$1,700 increase in operating profit and a \$1,217 decrease in other comprehensive income, net of a \$483 deferred tax expense, for the year ended December 26, 2010. For the thirteen and twenty-six-week periods ended June 27, 2010, operating profit decreased by \$828 and \$317, respectively, and other comprehensive income increased by \$593 and \$227, net of deferred tax revenues of \$235 and \$90, respectively.

18.6 Provisions

As at December 26, 2010, trade and other payables in the amount of \$7,612 (\$7,825 as at June 27, 2010) were reclassified to provisions to present provisions separately as required under IFRS.

Following the closure of two stores in the retail and commercial segment in 2008, a provision for onerous contracts was recognized for non-cancellable operating leases for commercial stores the Corporation no longer uses.

Under GAAP, when the contract is an operating lease, the fair value of the obligation at the date when the asset ceases to be utilized is based on rents receivable under the terms of the contract reduced by estimated sublease payments that could reasonably be obtained for the asset even when the entity has no intention of entering into a sublease contract.

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18. First-time Adoption of IFRS (continued)

Notes to reconciliation of equity and comprehensive income (continued)

18.6 Provisions (continued)

Under IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, the provision must be reviewed at the end of each reporting period. The provision recognized must be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period. During the third quarter ended September 26, 2010, the Corporation reviewed its assumptions, including the subleasing assumptions, which resulted in an increase in the following:

	2010 As at December 26	2010 As at June 27
Reclassification of trade and other payables to current provisions	\$ 4,094	\$ 4,086
Impact of revised assumptions related to provisions including subleasing assumptions	531	-
Impact of transition to IFRS on current provisions	<u>\$ 4,625</u>	<u>\$ 4,086</u>

	2010 As at December 26	2010 As at June 27
Reclassification of trade and other payables to non-current provisions	\$ 3,518	\$ 3,739
Impact of revised assumptions related to provisions including subleasing assumptions	1,021	-
Impact of transition to IFRS on non-current provisions	<u>\$ 4,539</u>	<u>\$ 3,739</u>

Operating profit was reduced by \$1,553 for the year ended December 26, 2010 (\$0 and \$0, respectively, for the thirteen and twenty-six-week periods ended June 27, 2010).

18.7 Pension and other employee obligations

At the date of transition, the Corporation elected to apply the IFRS 1 exemption and elected to recognize all cumulative actuarial gains and losses in retained earnings. This resulted in a \$12,582 decrease in the defined benefit asset (\$10,662 as at June 27, 2010) and a \$0 increase in other non-current liabilities (\$143 as at June 27, 2010), representing the unamortized net actuarial loss as at December 26, 2010. One pension plan, classified as defined contribution under GAAP, has been reclassified as defined benefit under IFRS, resulting in a \$1,418 increase in non-current liabilities (\$1,304 as at June 27, 2010) and a \$573 reduction in trade and other payables as at December 26, 2010 (\$289 as at June 27, 2010).

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18. First-time Adoption of IFRS (continued)

Notes to reconciliation of equity and comprehensive income (continued)

18.7 Pension and other employee obligations (continued)

The Corporation may no longer 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. As a result, following adoption of IFRS 1, the Corporation reversed the defined benefit asset balance of \$1,003 as at December 26, 2010 (\$714 as at June 27, 2010).

Under IFRS, an entity must record an additional liability equivalent to the minimum funding obligation for defined benefit plans if it does not have an unconditional right to the surplus, which resulted in a \$4,931 increase in the Corporation's other non-current liabilities (\$4,515 as at June 27, 2010) and a \$28 decrease in other assets as at December 26, 2010 (\$1,589 as at June 27, 2010).

Adjustments to pension and other employee obligations led to a \$466 decrease in operating profit for the year ended December 26, 2010 (increases of \$81 and \$286, respectively, for the thirteen and twenty-six-week periods ended June 27, 2010).

18.8 Share-based payment

IFRS 2, *Share-based Payment*, requires that stock option grant tranches with different vesting dates be recognized separately and fair value determined for each grant. As at December 26, 2010, compensation cost was recalculated using the new method, which led to a \$337 reduction in contributed surplus (\$337 as at June 27, 2010).

18.9 Consolidation

Non-controlling interests are presented differently under IFRS than under GAAP. In the statement of financial position, they are classified in equity, separately from equity attributable to the owners of RONA inc. and they are presented in net income and then as an attribution of net income.

Under IAS 27, *Consolidated and separate financial statements* and the mandatory exception in IFRS 1, from the date of transition, the subsidiaries' income or loss is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance. Under GAAP, the Corporation recognized an additional expense in income to offset the deficit balance of the non-controlling interests. Accordingly, as at December 26, 2010, the Corporation reduced non-controlling interests by \$111 (increase of \$20 and decrease of \$168, respectively, for the thirteen and twenty-six-week periods ended June 27, 2010) and increased operating profit in the same amount for the year ended December 26, 2010 and for the thirteen and twenty-six-week periods ended June 27, 2010.

RONA inc.
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18. First-time Adoption of IFRS (continued)

Notes to reconciliation of equity and comprehensive income (continued)

18.10 Income taxes

The following table shows the effect of transition adjustments on the Corporation's current and deferred tax assets and liabilities:

	2010 As at December 26	2010 As at June 27
Property, plant and equipment	\$ 10,042	\$ 9,777
Intangible assets	535	528
Leases	(2,077)	(2,195)
Financial instruments	541	(43)
Pension and other employee obligations	5,019	4,824
Provisions	400	-
Other	-	(199)
Total	\$ 14,460	\$ 12,692
Increase in current tax assets	\$ -	\$ (199)
Increase in deferred tax assets	8,473	8,314
Decrease in current tax liabilities	255	-
Decrease in deferred tax liabilities	5,732	4,577
Total	\$ 14,460	\$ 12,692

A \$1,505 decrease in income tax expense was recognized in net income for the year ended December 26, 2010 (additional expense of \$121 and \$152, respectively, for the thirteen and twenty-six-week periods ended June 27, 2010) for income tax on all previously-mentioned adjustments.

Additionally, \$12,869 in deferred tax amounts (\$15,836 as at June 27, 2010) in current assets and \$3,691 (\$4,299 as at June 27, 2010) in current liabilities have been reclassified in non-current assets and non-current liabilities, respectively, in accordance with the IFRS presentation as at December 26, 2010.

18.11 Revenue

Revenue in the amount of \$19,724 for the year ended December 26, 2010 (\$6,056 and \$11,549 for the thirteen and twenty-six-week periods ended June 27, 2010) has been reclassified to conform to the presentation under IFRS related to not offsetting revenues and expenses.

RONA inc.

Notes to Interim Consolidated Financial Statements

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18. First-time Adoption of IFRS (continued)

18.12 Statement of cash flows

Interest received has been classified in operating cash flows and investing cash flows according to their nature. Interest paid has been classified in financing cash flows because it is a cost of obtaining financial resources.

There are no other significant differences between the statements of cash flows under IFRS and under GAAP.

19. Events after the Reporting Period

There were no significant adjusting or non-adjusting events between the end of the reporting period and the date when the financial statements were authorized for issue.

20. Authorization of Financial Statements

The unaudited interim consolidated financial statements for the thirteen and twenty-six-week periods ended June 26, 2011 (including comparative figures) were authorized by the Board of Directors on August 9, 2011.



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