

RONA
2008 ANNUAL GENERAL MEETING
SPEAKING NOTES FOR ROBERT DUTTON
PRESIDENT AND CEO

Wednesday, April 23, 2008

Colleagues and co-shareholders, ladies and gentlemen,

For the first time in 18 years, our net earnings did not increase in 2007. You heard me right...for the first time in 18 years. Few companies can lay claim to a period of uninterrupted sustained growth as long as the one we have enjoyed. But since 2007 and through the beginning of 2008, we took the necessary actions to rapidly renew with our profit growth pace.

1. 2007 beyond the finances

I would like to start with a brief summary of some of our achievements for the year.

Our share of the Canadian market rose again last year, to 17%. Five years ago, as you may recall, we were sitting at around 11.5%.

We opened six new big-box stores during the year -- four in Ontario, one in Quebec and one in Alberta. We also opened three proximity stores -- two in Ontario and one in New Brunswick. At the end of the year, we also relocated one big-box store in Brossard, Quebec, in a new highly promising lifestyle center called Quartier DIX30. We carried out 12 major corporate store renovations during the year. And finally, our affiliated dealers have realized 180 growth projects for a total investment of over \$53 million. In total, in 2007, we added 840 000 square feet of retail sales space to our network that now offers over 15 million square feet.

We completed the acquisition of two major companies with sales totalling over \$250 million, namely Noble Trade and Dick's Lumber. And, like every year, we bought out a few affiliates. I would like to take this opportunity to welcome the managers and employees of these firms to the growing RONA network.

These acquisitions have strengthened our position in Ontario and British Columbia, especially in the commercial and professional segment, where we have substantial growth potential.

We also structured our offer in the commercial and professional segment by creating a dedicated division, under Michael Storfer's direction. This division will focus on plumbing, electrical and construction as well as property maintenance.

We recruited 27 dealer-owners representing \$81 million in sales, bringing the total number of independent dealer-owners recruited in the last five years to 131 – with close to \$630 million in annual sales.

And most recently – as of February when we disclosed our 2007 results – we recruited nine new independent dealers with estimated annual retail sales of close to \$50 million.

We signed a new nine-year work agreement with the employees from our main distribution centre in Boucherville.

We launched a series of environmentally responsible initiatives, including our participation in the International Chair in Life Cycle Assessment of the Ecole Polytechnique de Montreal, along with other companies such as Alcan, Cascades, Hydro-Québec, Veolia Environnement, Électricité de France and Gaz de France. And just a few weeks ago, we launched a whole new line of private brand products called RONA Eco.

I won't go into details here on the very long list of initiatives designed to boost traffic in our points of sale, increase service quality in our stores, and improve our logistical and operational efficiency, but I can sum up the success of these initiatives by giving you a few key results indicators.

For example, consumer awareness of RONA increased again this year, from 73% to 78%. Our consumer loyalty level went up from 68% to 72%. The satisfaction indicator for services offered by our various units, especially services offered to the stores, increased 85% in 2007 over 2006. And our employee mobilization indicator rose substantially, to 27 from 22 in 2005. This is especially impressive since the score in our group of reference companies was only 2 or 3...

As you can see, 2007 was a really great year for many reasons. And better yet, it was a promising year, because our achievements in 2007 are an indicator of the healthy return we will enjoy this year and in years to come.

2. Economic slowdown – a moment of revelation

In spite of the aforementioned good news, the economic situation in 2008 will certainly not be conducive to spectacular growth. As any quick scan of the news will tell you, there's a very good chance of a recession in the US, and you can't help but hear about the slowing growth in Canada as well. Whether these predictions come from the Bank of Canada or from chartered banks, there is a general consensus that the slowdown will be especially pronounced in 2008 and that growth will slowly pick up in 2009.

I'm not going to repeat everything you've been hearing in the media lately. But I do want to put these things into perspective: for the time being, the Canadian economy is more robust than the economy south of the border. For the time being. Because we know that hiccups in the American economy have repercussions around the world.

However – and I think this is even more important – even though the short-term economic situation will undoubtedly affect our results, it cannot determine our strategic approach.

Because our planning horizon extends way beyond the next few quarters. Remember that a new store will be in operation for decades – the oldest RONA corporate store in our network opened for business way back in 1994.

My view is that we should not sit back and suffer through the economic slowdown – we should make the most of it. For businesses, times like this provide opportunities for improvement and excellence.

We can take advantage of the economic slowdown to identify potential improvements and act on them. In other words, to become an even better retailer than we already are.

3. Our 2008 – 2011 ambition

This is how we've defined our business ambitions for the next four years.

We've summed it up in four points:

- Our ambition is to become the destination of choice for all the home needs of Canadians.
- Our ambition is to offer Canadians the best service and the best shopping experience in the industry.
- Our ambition is to be the most efficient and innovative player in the industry in Canada.
- And our ambition is to be the sustainable development leader in our industry.

I admit that these business ambitions are quite...ambitious. But after all, it was only by setting ambitious goals...and achieving them...that RONA became the Canadian industry leader in the first place.

RONA will achieve these business ambitions in two overlapping phases, each with its own key thrusts.

In the first phase, we will seize the opportunity offered by the economic slowdown to pursue every potential improvement at every level of our operations. In the second phase, we will deploy new means to recapture our accelerated growth.

4. Phase 1: PEP – Productivity, Efficiency, Profitability

Phase 1 has been named PEP – for Productivity, Efficiency, Profitability.

First I want to talk about store profitability. We have already begun a number of initiatives that should be producing quick and lasting results.

We formed a task force to increase our gross margins. Lowering shrinkage, growing our private brands, increasing imports and making the supply process more efficient...no stone will be left unturned to improve our gross margin.

We also created a task force to help determine and communicate best business practices within RONA. This group will focus on improving performance in stores with lower-than-average operating margins. The situation in all stores should improve as a result.

We will also dispose of certain non-strategic assets, like land that no longer fits into our plans because of recruitment or acquisitions.

We will review all banners and determine the effective value of each one, with a view to combining certain banners or transferring some stores to other banners.

We will review the profitability of every current and potential product category. We're also planning to add certain categories in order to become the Canadian destination of choice for all home needs.

We're continuing our research and development efforts to improve concepts for stores of every size and to develop new concepts. At the same time, we're making efforts to lower the construction cost for new stores and change our store opening process to get new stores up to cruising speed more quickly.

Most of these measures should affect store profitability this year.

Under the PEP program, we've also started optimizing the supply chain. We have identified opportunities for improvement in demand planning, in inventory levels throughout the supply chain, and in the use of our various distribution channels – essentially direct-to-store delivery, transshipment and warehousing at our distribution centres.

While many businesses cut back on employee training when business is slow, we're increasing our investment in personnel training and mobilization. A retailer's product is essentially service, so our continued development relies on the continual improvement of our service quality.

We will also continue to invest significant sums in information technology. We will be getting new financial and human resources information systems, better information systems at our points of sale, an improved e-commerce infrastructure, and a better dashboard so we can react more quickly and effectively to short-term fluctuations in our activities.

While our acquisition integration model remains sound and has allowed us to create millions of dollars of added value with our acquisitions since 2000, it is always possible to do better and further harmonize the integration process. So we're going to upgrade our integration process as well.

We have already identified and pushed ahead on all these opportunities for improved productivity. Together these measures will improve our operating margins, of course, but they will also increase store appeal and friendliness, product selection and availability, employee competency and motivation – in short, everything that adds up to better service quality and a better shopping experience.

With all of this in place, we will be well and truly prepared for the accelerated growth in Phase 2 of our business plan over the next years.

5. Phase 2: returning to accelerated growth

Let's now look at our second phase of our strategic plan: accelerated growth.

We now operate in three sectors: our own retail network, our affiliate network, and our network of commercial and professional sector stores. Although all these sectors are in the home sector, they each have their own separate growth drivers.

In our retail sector, we will continue to standardize the network and innovate to claim the role of THE solution of choice for all the home needs of Canadians. A few minutes ago I mentioned that we will be adding product categories and pursuing the development of our store formats. We'll also be making greater use of loyalty drivers, like the Air Miles program, our loyalty credit card, our private brands and more. And I mustn't leave out our marketing and advertising efforts, especially our Olympic sponsorship – the 2010 Vancouver Winter Games will take place while Phase 2 is in full swing.

In terms of our affiliate dealer-owners, we will be stepping up recruitment efforts and supporting our affiliates in their expansion plans. We will dedicate more resources to market prospecting and approaching independent dealer-owners, and we'll make our recruitment offer more attractive for the most strategic targets.

We're also going to change the entry process for new affiliates, to accelerate their conversion to our distribution system, so their integration will result in more rapid sales increases for RONA.

And finally, in the commercial and professional sector, we will pursue a product-category strategy to achieve the position of regional leader in certain selected categories. We will then expand that leadership position to more regions and eventually from coast to coast, integrating other complementary product categories. To this end, we may open counters specifically for commercial and professional customers in our retail network. Remember that the specialized commercial and professional market is about two times as big as the retail market, and it is wide open for consolidation...so it offers truly enormous growth potential.

We also have to bear in mind that the two phases of our 2008-2011 plan are not necessarily separate in time. Productivity, efficiency and profitability will continue to be matters of concern for our 27,000 employees, and in many regards our Phase 2 growth revival has already begun. We plan to remain the Canadian market leader and to actually increase our market share to over 20% by 2011.

The first phase – devoted to the optimization of our operations – will result in relatively smaller growth in terms of earnings per share – but growth nevertheless. Starting in 2010, we should be back into two-digit growth. For the 2008-2011 period, we also aim to optimise our return on capital employed as well as maintain our investment grade credit rating.

To sum up, I think I can compare our situation to the seasonality of our operations. Like all retailers, we're used to diving into the seasons well ahead of everyone else. In November 2007, we held our 2008 Spring Tradeshow. Right now we're already getting ready for next winter with our preparations for Christmas 2008. This business plan is somewhat similar. The economic upturn and the return to accelerated earnings growth is something we must prepare for now.

Finally, I want to express my personal thanks – and that of our board of directors and our entire management team – for the skills and dedication of the employees in the RONA network.

I also want to thank the members of the board of directors. Their support and advice help us challenge ourselves to do better and meet the very highest standards of governance, which has long been part of RONA's fundamental values.

Thank you for your attention.