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1

# Taking the right measures

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KITCHEN & BATH  
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## Consolidated interim report

*for the quarter ended March 29, 2009*



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# RONA

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## DESPITE TOUGH ECONOMIC CONDITIONS, STRONG EXECUTION OF PEP PROGRAM AND STRICT BALANCE SHEET MANAGEMENT SET THE PACE AT RONA IN FIRST QUARTER 2009

### FIRST QUARTER HIGHLIGHTS

- 7.2% decline in consolidated sales as a result of economic uncertainty and seasonality effect, exacerbated by weather conditions that hampered renovation-construction activities.
- Distribution sales up 0.2% through recruitment of new dealer-owners.
- Higher sales to commercial and professional customers through the big-box stores network and the Commercial and Professional Market division in Ontario, despite a slowdown in that market.
- An increase of 28 basis points in the gross margin and 72 basis points in adjusted gross margin.
- A \$71 million or 7.3% reduction of comparable inventories.
- Net debt down \$222.3 million compared to 2008, resulting in a 25.7% reduction of interest expenses on long-term debt and bank loans.
- Net loss of \$2.5 million or \$0.02 per share (diluted), compared to a net loss of \$2.4 million or \$0.02 per share (diluted) in 2008, as restated to comply with a new accounting standard.
- Ongoing store network optimization and expansion, with renovation of Réno-Dépôt stores in Anjou, Quebec and Saint-Hubert, Quebec, recruitment of 6 new independent dealer-owners, and a 180,000-square-foot expansion of the specialty plumbing distribution centre in Ontario.

RONA inc. (TSX: RON), Canada's largest distributor and retailer of hardware, renovation and gardening products, announced a 7.2% decline in consolidated sales, which stood at \$846.0 million for first quarter 2009, compared to \$911.5 million in 2008. This decline is largely the result of an 8.5% drop in same-store sales due to low levels of consumer confidence in the economy and the significant drop in housing starts in Western Canada, as well as a seasonal effect exacerbated by a period of intense cold at the beginning of the year, which affected sales of construction materials and forest products everywhere in the country. Weather conditions were especially poor in Western Canada in March, with record precipitation levels in Alberta. Sales in the distribution sector were up slightly this quarter, reflecting the recruitment of new affiliate dealer-owners over the past year. Finally, commercial and professional sales in the big-box network and the Commercial and Professional Market division in Ontario increased this quarter, despite a slowdown in that market.

Readers of this *News release* should note the application of a new accounting standard in the first quarter of the year, which changes the results presented in the first quarter of 2008. For a summary description of the impact of this new standard on RONA's consolidated results, please see the "New accounting standard" section on page 2 of this press release, and for a full description, please see note 2 of the Company's consolidated financial statements.

Operating income was \$25.5 million in first quarter 2009, down \$1.1 million or 4.2% from the \$26.6 million posted in 2008. This decline is largely attributable to downward pressure on sales in the renovation-construction industry due to low consumer confidence and seasonality effect. This downward pressure has a greater impact in the first and fourth quarters than in the second and third quarters, because the beginning and the end of the year are the times when store traffic is at its lowest, and variable costs are harder to contain. However, the numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008-2011 strategic plan have helped offset the negative impact of these factors.

Despite the 28 basis point increase in the gross margin and the 72 basis point increase in the adjusted gross margin, the EBITDA margin increased by only 9 basis points during the quarter, from 2.92% in 2008 to 3.01% in 2009. As mentioned above in our explanation of the decline in operating income, the first quarter represents a low proportion of the year's business volume and variable costs during this period, as a result, are more difficult to contain. This puts substantially greater downward pressure on the EBITDA margin. This negative impact, however, was offset by a substantial increase in the EBITDA margin in the Company's distribution activities.

For first quarter 2009, RONA posted a net loss of \$2.5 million or \$0.02 per share, compared to a net loss of \$2.4 million or \$0.02 per share in first quarter 2008. This is a decrease of \$0.1 million, reflecting current downward pressure on sales in the renovation-construction industry and a seasonal effect amplified by poor weather conditions. These factors were almost completely offset by the improved efficiency measures under the PEP program and the reduction in interest costs.

"We are starting 2009 the way we ended 2008 – with very good performance in our PEP program (productivity, efficiency, profitability), including an improved gross margin, lower comparable inventories and reduced logistics costs. These factors have helped mitigate the impact of the current recession on our retail sales, which were affected by especially poor weather conditions in January and March. We have considerably improved our balance sheet, with a significant reduction in our debt levels and financial costs this quarter. Although the PEP program has helped offset most of the negative impact of the tough economic conditions in 2008 and first quarter 2009, we believe that the current economic environment could continue to have repercussions on our own business environment and, by extension on our same-store sales and earnings in the next quarters," RONA President and CEO Robert Dutton explained.

"Given this context, we intend to vigorously pursue the various efficiency improvement measures ongoing under the PEP program to stimulate sales and improve our efficiency over the next quarters. The Company will remain very vigilant throughout the year and be ready to adapt its operating activities and capital investments to the specific economic conditions expected in 2009. We plan to reduce our capital spending by nearly \$50 million or 25% in 2009, and continue to reduce inventory and administrative costs. But we remain optimistic about the fundamental factors underpinning the demand for renovation projects, especially as this demand should be stimulated by the renovation tax credits announced by the federal and provincial governments in early 2009, and by RONA's own complementary incentives program. We also believe that the current market conditions present significant potential for further consolidation of the Canadian renovation-construction market. We therefore plan to pursue our consolidation efforts in the next quarters," Dutton concluded.

## FIRST QUARTER 2009 FINANCIAL HIGHLIGHTS

### New Accounting Standard

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

In brief, operating income for first quarter 2008 has been reduced by \$6.8 million, amortization and depreciation by \$1.9 million, and net earnings by \$3.4 million, or a reduction of \$0.03 per share. Prepaid expenses have also been reduced by \$21.7 million, other assets by \$11.1 million, and retained earnings by \$20.5 million. The detailed impact of applying these new recommendations is explained in Note 2 of the Consolidated Financial Statements.

### Economic conditions

In first quarter 2009, several factors combined to keep Canadian consumer confidence at an historic low. The unemployment rate rose to its highest point since 2003, at 7.7% in February, and the economic slowdown was worse than anticipated. In its April *Monetary Policy Report*, the Bank of Canada indicated that in an environment of continued high uncertainty, the global recession has intensified and become more synchronous since the Bank's January *Monetary Policy Report* update. It also indicated that although monetary and budgetary authorities are taking more aggressive action, measures to stabilize the global financial system have taken longer than expected to enact.

As a result, the Bank of Canada expects the recession in Canada to be deeper than anticipated, with the economy projected to contract by 3.0% in 2009, significantly more than the bank's January projection of a 1.2% decline. (In 2008, the Canadian economy grew by 0.7% of GDP, while in 2007, growth was 2.7%.) Under these circumstances, the Bank of Canada has lowered its overnight rate to 0.25% in April, a level it judges to be the effective lower bound for that rate. Since the end of 2007, the Bank of Canada has lowered its overnight rate by 425 basis points.

This particular economic environment has been highly unfavourable for renovation-construction activities, as can be seen by the significant declines in housing starts since the beginning of the year, especially in the West. In first quarter 2009, housing starts for single-family homes in Canadian urban areas declined by 46.4%, according to CMHC estimates. This decline has been particularly strong in British Columbia, where housing starts for single-family homes decreased by 69%, compared to 43.1% in Alberta and 51.9% in Ontario. In Quebec, the decline in housing starts has been less pronounced, at 24.1%, while in the Atlantic Provinces, housing starts for single-family homes are down by 28.2%. The most recent figures for home resales and average home prices are also down, especially in Western Canada and Ontario. However, average sale prices are up in Quebec and the Atlantic Provinces.

Very low mortgage rates and the introduction of federal and provincial renovation tax credits are expected to stimulate renovation activity nationwide. The fundamentals are also positive for renovation in Canada, since more than 65% of existing dwellings are over 25 years old and will need maintenance and repair work. In addition, Baby Boomers represent roughly 30% of the population and they are investing heavily in their homes and secondary residences, while interior decorating and gardening also remain highly popular activities. Last but not least, more and more next-generation Canadians are looking for one-stop solutions for their renovation projects and outstanding service in a friendly store near their home. Based on all these different trends, RONA is increasing new store formats and concepts, selecting products and product categories, and developing innovative services. The current business environment also remains favourable to the consolidation of the renovation-construction market in Canada, especially through acquisitions and recruitment of independent dealer-owners.

#### **Consolidated sales**

Consolidated sales in first quarter 2009 stood at \$846.0 million, down \$65.5 million or 7.2% less than the \$911.5 million posted in 2008. This decline is largely the result of an 8.5% drop in same-store sales, due to the low level of consumer confidence in the economy, the significant drop in housing starts in Western Canada, and a seasonal effect amplified by a period of intense cold at the beginning of the year, which affected the sale of construction materials and forest products everywhere in the country. Weather conditions were especially poor in Western Canada in March, with record precipitation levels in Alberta. Sales in the distribution sector were up slightly this quarter, reflecting the recruitment of new affiliate dealer-owners over the last year. These dealer-owners posted a comparatively strong retail performance, with a decline of only 3.2% in same-store sales over this quarter.

#### **Gross margin**

In first quarter 2009, the gross margin increased 28 basis points from 27.97% to 28.25%. Given better terms and conditions from our suppliers and the resulting supportive impact on growth of the store network, the adjusted gross margin rose by 72 basis points from 30.97% to 31.69%. These improvements stem from better management of product categories, further improvements in terms and conditions from our suppliers, and reduced transportation costs.

#### **Consolidated operating income**

Operating income was \$25.5 million in first quarter 2009, down \$1.1 million or 4.2% from the \$26.6 million posted in 2008. This decrease in operating income can be attributed mainly to downward pressure on sales in the renovation-construction industry, due to the low level of consumer confidence and the seasonal effect. This pressure has a more substantial impact on results in the first and fourth quarters than in the second and third, because the beginning and the end of the year are the times when store traffic is at its lowest, and variable costs are harder to contain. However, the numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008-2011 strategic plan have helped offset the negative impact of these factors. In the first quarter, the PEP program helped improve the gross margin by 28 basis points and the adjusted gross margin by 72 basis points, reduce comparable inventory

levels by \$71 million, reduce transportation and logistics costs by nearly \$1 million, and optimize the network of existing stores.

Despite the 28 basis point increase in the gross margin and the 72 basis point increase in the adjusted gross margin, the EBITDA margin increased by only 9 basis points during the first quarter, from 2.92% in 2008 to 3.01% in 2009. As mentioned above in our explanation of the decline in operating income, the first quarter represents a low proportion of the year's business volume and variable costs during this period, as a result, are more difficult to contain. This puts substantially greater downward pressure on the EBITDA margin. This negative impact, however, was offset by a substantial increase in the EBITDA margin in the Company's distribution activities.

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

RONA interest expenses on long-term debt and bank loans for first quarter 2009 decreased by \$2.0 million to \$5.9 million, down 25.7% from \$7.9 million in 2008. This decrease is attributable to highly disciplined management of our balance sheet and capital investments, resulting in lower debt levels. The reduction is also partly due to the decline in interest rates over the last year.

Depreciation and amortization costs for first quarter 2009 rose to \$24.9 million, compared to \$23.3 million in 2008, an increase of \$1.6 million or 6.7%. This increase is due to new corporate store openings in 2008, store acquisitions, the renovation program for existing corporate stores, and ongoing upgrades to our information systems.

#### **Net loss**

For first quarter 2009, RONA posted a net loss of \$2.5 million or \$0.02 per share, compared to a net loss of \$2.4 million or \$0.02 per share in first quarter 2008. This is a decrease of \$0.1 million, reflecting current downward pressure on sales in the renovation-construction industry and a seasonal effect amplified by poor weather conditions, which were almost completely offset by the improved efficiency measures under the PEP program and the reduction in interest costs.

#### **CASH FLOWS AND FINANCIAL POSITION**

Operations generated \$26.9 million in first quarter 2009, compared to \$21.5 million in 2008. Net of increases in working capital related to the growth and expansion of the retail and distribution network, operations resulted in cash outflows of \$68.1 million, compared to \$127.0 million in 2008, an improvement of 46.4%. As explained earlier, comparable inventories were reduced by \$71 million in first quarter 2009.

Comparable inventories were likewise significantly reduced in every quarter in 2008, as the following table shows:

#### **Reductions in comparable inventories**

In millions of dollars	Q1-2008	Q2-2008	Q3-2008	Q4-2008	Q1-2009
Inventories at end of the corresponding quarter the year before	\$944	\$959	\$872	\$856	<b>\$967</b>
Reduction in comparable inventories	\$83	\$118	\$80	\$118	<b>\$71</b>
Reduction (percent)	8.8%	12.3%	9.2%	13.8%	<b>7.3%</b>

During the first quarter, RONA invested \$40.9 million in capital spending, compared to \$42.1 million in 2008. At the beginning of the year, management indicated that it would reduce capital spending by nearly \$50 million in 2009. Although the first quarter shows a reduction of only \$1.2 million compared to 2008, RONA intends to reduce capital spending as promised in the forthcoming quarters. RONA expects to invest about \$150 million in capital spending in 2009, mainly in information technology upgrades, store renovations and new store construction. During the first quarter, RONA also disposed of non-strategic assets worth \$2.2 million.

The Company's net indebtedness as at March 29, 2009 totalled \$598.9 million. This is a reduction of \$222.3 million or 27.1% compared to 2008. The net debt has increased by \$108.6 million compared to year end 2008, however, due to the seasonal effects in the first quarter.

On March 29, 2009, the ratio of total debt to capital was 29.5%, compared to 38.4% at the end of first quarter 2008. The ratio of shareholders' equity to total assets was 53.9% at the end of first quarter 2009, compared to 48.5% at the same date in 2008.

RONA has access to \$650 million in revolving credit. At the end of this quarter, \$154 million had been drawn on that total. Renewal of this credit facility is projected for 2012, and the unsecured debentures that constitute the major portion of the Company's long-term debt mature in 2016.

## OUTLOOK

As explained in some detail in the "Economic conditions" section, during the first quarter of 2009 several factors contributed to keep the level of Canadian consumer confidence at an historically low level. Unemployment was at its highest since 2003, reaching 7.7% in February, and the economic slowdown was more severe than anticipated. The Bank of Canada predicts that the recession in Canada will be deeper than expected and that the economy will contract by 3.0% in 2009, far more than the 1.2% contraction the Bank predicted in January. In addition, consumer confidence in institutions in general has been deeply shaken in the wake of the world financial crisis.

While the PEP program very largely helped offset the negative impact of the difficult economic conditions in 2008 and first quarter 2009, RONA management believes that the current economic environment could continue to have repercussions on the Company's business environment and, by extension, on its same-store sales and earnings in the next quarters.

As such, RONA intends to actively pursue the various measures under the PEP program to stimulate sales and improve efficiency over the next quarters. The Company will remain very vigilant throughout the year and be ready to adapt its operating activities and capital investments to the specific economic conditions expected in 2009. RONA plans to reduce capital spending from \$196.1 million in 2008 to approximately \$150 million in 2009, a reduction of nearly \$50 million or 25%. This measure, together with the planned reduction of inventories, and improvements to operational efficiency, will allow RONA to reduce its sales and administrative costs (excluding costs related to store openings and acquisitions), reduce its financial costs, and limit the increase in depreciation and amortization.

Management remains optimistic about the fundamental factors that support the demand for renovation projects, especially as this demand should be stimulated by the renovation tax credits announced by the federal and provincial governments in early 2009, and by RONA's own complementary incentives program. Management also believes that the current market conditions present significant potential for further consolidation of the Canadian construction/renovation market and will therefore pursue its consolidation efforts in the next quarters.

## ADDITIONAL INFORMATION

The *Management Discussion and Analysis (MD&A)* and unaudited financial statements for the 2008 fiscal year can be found in the "Investor Relations" section of the Company's website at [www.rona.ca](http://www.rona.ca), and at [www.sedar.com](http://www.sedar.com). The Company's Annual Report can also be found on the RONA website, along with other information about RONA, including its *Annual Information Form*, which can also be found on the SEDAR website.

## NON-GAAP PERFORMANCE MEASURES

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

the concept of “adjusted gross margin,” which corresponds to sales less the cost of goods sold including all vendor rebates.

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

While these measures do not have a meaning standardized by GAAP, the management of the Company believes they represent good indicators of the operating performance of existing activities.

## **FORWARD-LOOKING STATEMENTS**

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

For more information on the risks, uncertainties and assumptions that would cause the Company’s actual results to differ from current expectations, please also refer to the Company’s public filings available at [www.sedar.com](http://www.sedar.com) and [www.rona.ca](http://www.rona.ca). In particular, further details and descriptions of these and other factors are disclosed in the MD&A under the “Risks and uncertainties” section and in the “Risk factors” section of the Company’s current Annual Information Form.

The forward-looking statements in this *News release* reflect the Company’s expectations as at May 12, 2009, and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

## **ABOUT RONA**

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of nearly 700 corporate, franchise and affiliate stores of various sizes and formats. With over 29,000 employees working under its family of banners in every region of Canada and more than 15 million square feet of retail space, the RONA store network generates over \$6.3 billion in annual retail sales.

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## MANAGEMENT DISCUSSION AND ANALYSIS FOR THE FIRST QUARTER 2009 13-WEEK PERIOD ENDED MARCH 29, 2009

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

RONA's sales include:

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

### FINANCIAL STATEMENTS

RONA's financial statements have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP") and are expressed in Canadian dollars. RONA has filed its unaudited consolidated financial statements for the 13-week period ended March 29, 2009 with the Canadian Securities Administrators. These statements can be viewed online at [www.sedar.com](http://www.sedar.com) or on RONA's website at [www.rona.ca](http://www.rona.ca). This Management Discussion and Analysis ("MD&A") should be read in conjunction with the Company's financial statements and related notes.

### NON-GAAP PERFORMANCE MEASURES

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

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

### NEW ACCOUNTING STANDARD

Readers of this *Management Discussion and Analysis* will note the application of a new accounting standard in the first quarter, which restates the results presented in the first quarter of 2008.

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

beginning of first quarter 2008 – were restated and included in Retained Earnings and the results of operations of 2008 were also restated to conform to the 2009 presentation.

In brief, operating income for first quarter 2008 has been reduced by \$6.8 million, amortization and depreciation by \$1.9 million, and net earnings by \$3.4 million, or a reduction of \$0.03 per share. Prepaid expenses have also been reduced by \$21.7 million, other assets by \$11.1 million, and retained earnings by \$20.5 million. The detailed impact of applying these new recommendations is explained on page 9 of this report and in Note 2 of the Consolidated Financial Statements.

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

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

### **Achievements in first quarter 2009**

The following section highlights quarterly achievements related to implementation of the various initiatives under Phase 1 of the plan – that is, the PEP program (productivity, efficiency, profitability). Unlike in fiscal 2008, management this year has decided to present its progress in relation to the 2008–2011 financial objectives only at the end of the year, since the strategic plan's various initiatives related to these objectives have a more tangible impact on the annual results. Management will continue to present the quarterly achievements of the PEP program, however, as their quarterly effect is considerable.

#### ***Achievements related to Phase 1 initiatives: The PEP program (productivity, efficiency, profitability)***

##### **1. Improve the profitability of our corporate store network:**

- Consolidated gross margin increased by 28 basis points. Given better terms and conditions from our suppliers and the resulting supportive impact on growth of the store network, the adjusted gross margin improved by 72 basis points. These increases stem from better management of product categories, further improvements in terms and conditions from our suppliers, and reduced transportation costs.
- Two big-box stores under the Réno-Dépôt banner were renovated in the first quarter of 2009: one in Anjou, Quebec and another in St-Hubert, Quebec.
- In-depth studies of new product categories were conducted in this quarter and will be considered in selecting products in the future, as well as in the development of store concepts currently under study.

##### **2. Optimize the supply chain:**

- Comparable inventories in first quarter 2009 (excluding new stores and acquisitions) were reduced by \$71 million compared to first quarter 2008, resulting in lower operating costs and financial charges. Including new stores and acquisitions, inventories were reduced by \$62 million.
- Reduced transportation costs and ongoing improvements in demand management resulted in a nearly \$1 million reduction in logistics costs in first quarter 2009.
- An office in Shanghai was opened in order to optimize management of the Company's imports.

##### **3. Accelerate recruitment of independent dealer-owners:**

- During the first quarter ended March 29, 2009, RONA recruited six new independent dealer-owners: two in Western Canada, one in Ontario and three in Quebec, representing estimated annual retail sales of nearly \$20 million. Since the end of the first quarter, one more dealer-owner has been recruited in Western Canada.
- Several recruitment applications are under study in different parts of the country, and may represent real potential for the quarters ahead.

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

- Over 10% growth in commercial and professional sales for big-box stores in Ontario, achieved through close cooperation with the specialized sales team in our Commercial and Professional Market division.
- 180,000-square-foot expansion of the Commercial and Professional Market division's plumbing distribution centre in Ontario, in order to expand our range of available products.
- Same-store sales growth for Noble Trade Plumbing Supplies, despite a declining market.
- Introduction of the RONAdvantage program, which provides rebates in the form of gift certificates to a maximum of \$1,000 as a complementary incentive under the new renovation tax credit programs. Nearly 3,000 applications have been received to date across the RONA network.
- RONA private brand and controlled-label products penetration rate increased to more than 17% this quarter in spite of a slight decrease in sales.
- Growth in sales of various services offered in our stores, such as installation services, the Project Guide and other value-added services.
- Launch of the new "Doing it right" advertising campaign, which has become the Company's new signature, replacing "The How-To People". This new company signature reflects the concrete steps the Company has taken toward sustainable development, including sales of environmentally friendly products, the used paint recovery program, and ecologically responsible pesticide and lumber supply policies. RONA's leadership in products and services is also featured in the campaign, and RONA by Design, our private brand and our financing options are also mentioned in the advertising.
- Launch of the new RONA by Design collection, including interior doors with windows by renowned designer Jean-Claude Poitras, available exclusively at RONA.

### ANALYSIS OF CONSOLIDATED RESULTS FOR THE QUARTER ENDED MARCH 29, 2009

#### Economic conditions

In first quarter 2009, several factors combined to keep Canadian consumer confidence at an historic low. The unemployment rate rose to its highest point since 2003, at 7.7% in February, and the economic slowdown was worse than anticipated. In its April *Monetary Policy Report*, the Bank of Canada indicated that in an environment of continued high uncertainty, the global recession has intensified and become more synchronous since the Bank's January *Monetary Policy Report* update. It also indicated that although monetary and budgetary authorities are taking more aggressive action, measures to stabilize the global financial system have taken longer than expected to enact. As a result, the Bank of Canada expects the recession in Canada to be deeper than anticipated, with the economy projected to contract by 3.0% in 2009, significantly more than the bank's January projection of a 1.2% decline. (In 2008, the Canadian economy grew by 0.7% of GDP, while in 2007, growth was 2.7%.) Under these circumstances, the Bank of Canada has lowered its overnight rate to 0.25% in April, a level it judges to be the effective lower bound for that rate. Since the end of 2007, the Bank of Canada has lowered its overnight rate by 425 basis points.

This particular economic environment has been highly unfavourable for renovation-construction activities, as can be seen by the significant declines in housing starts since the beginning of the year, especially in the West. In first quarter 2009, housing starts for single-family homes in Canadian urban areas declined by 46.4%, according to CMHC estimates. This decline has been particularly strong in British Columbia, where housing starts for single-family homes decreased by 69%, compared to 43.1% in Alberta and 51.9% in Ontario. In Quebec, the decline in housing starts has been less pronounced, at 24.1%, while in the Atlantic Provinces, housing starts for single-family homes are down by 28.2%. The most recent figures for home resales and average home prices are also down, especially in Western Canada and Ontario. However, average sale prices are up in Quebec and the Atlantic Provinces.

Very low mortgage rates and the introduction of federal and provincial renovation tax credits are expected to stimulate renovation activity nationwide. The fundamentals are also positive for renovation in Canada, since more than 65% of existing dwellings are over 25 years old and will need maintenance and repair work. In addition, Baby Boomers represent roughly 30% of the population and they are investing heavily in their homes and secondary residences, while interior decorating and gardening also remain highly popular activities. Last but not least, more and more next-

generation Canadians are looking for one-stop solutions for their renovation projects and outstanding service in a friendly store near their home. Based on all these different trends, RONA is increasing new store formats and concepts, selecting products and product categories, and developing innovative services. The current business environment also remains favourable to the consolidation of the renovation-construction market in Canada, especially through acquisitions and recruitment of independent dealer-owners.

### **Consolidated sales**

Consolidated sales in first quarter 2009 were \$846.0 million, down \$65.5 million or 7.2% less than the \$911.5 million posted in 2008. This decline is largely the result of an 8.5% drop in same-store sales, due to the low level of consumer confidence in the economy, the significant drop in housing starts in Western Canada, and a seasonal effect amplified by a period of intense cold at the beginning of the year, which affected the sale of construction materials and forest products everywhere in the country. Weather conditions were especially poor in Western Canada in March, with record precipitation levels in Alberta. Sales in the distribution sector were up slightly this quarter, reflecting the recruitment of new affiliate dealer-owners over the last year. These dealer-owners posted a comparatively strong retail performance, with a decline of only 3.2% in same-store sales over this quarter.

### **Gross margin**

In first quarter 2009, the gross margin increased 28 basis points from 27.97% to 28.25%. Considering all vendor rebates, the adjusted gross margin rose by 72 basis points from 30.97% to 31.69%. These improvements stem from better management of product categories, further improvements in terms and conditions from our suppliers, and reduced transportation costs.

### **Consolidated operating income**

Operating income was \$25.5 million in first quarter 2009, down \$1.1 million or 4.2% from the \$26.6 million posted in 2008. This decrease in operating income can be attributed mainly to downward pressure on sales in the renovation-construction industry, due to the low level of consumer confidence and the seasonal effect. This pressure has a more substantial impact on results in the first and fourth quarters than in the second and third, because the beginning and the end of the year are the times when store traffic is at its lowest, and variable costs are harder to contain. However, the numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008-2011 strategic plan have helped offset the negative impact of these factors. In the first quarter, the PEP program helped improve the gross margin by 28 basis points and the adjusted gross margin by 72 basis points, reduce comparable inventory levels by \$71 million, reduce transportation and logistics costs by nearly \$1 million, and optimize the network of existing stores.

Despite the 28 basis point increase in the gross margin and the 72 basis point increase in the adjusted gross margin, the EBITDA margin increased by only 9 basis points during the first quarter, from 2.92% in 2008 to 3.01% in 2009. As mentioned above in our explanation of the decline in operating income, the first quarter represents a low proportion of the year's business volume and variable costs during this period, as a result, are more difficult to contain. This puts substantially greater downward pressure on the EBITDA margin. This negative impact, however, was offset by a substantial increase in the EBITDA margin in the Company's distribution activities.

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

RONA interest expenses on long-term debt and bank loans for first quarter 2009 decreased by \$2.0 million to \$5.9 million, down 25.7% from \$7.9 million in 2008. This decrease is attributable to highly disciplined management of our balance sheet and capital investments, resulting in lower debt levels. The reduction is also partly due to the decline in interest rates over the last year.

Depreciation and amortization costs for first quarter 2009 rose to \$24.9 million, compared to \$23.3 million in 2008, an increase of \$1.6 million or 6.7%. This increase is due to new corporate store openings in 2008, store acquisitions, the renovation program for existing corporate stores, and ongoing upgrades to our information systems.

## Net loss

For first quarter 2009, RONA incurred a net loss of \$2.5 million or \$0.02 per share, compared to a net loss of \$2.4 million or \$0.02 per share in first quarter 2008. This is a decrease of \$0.1 million, reflecting current downward pressure on sales in the renovation-construction industry and a seasonal effect amplified by poor weather conditions, which were almost completely offset by the improved efficiency measures under the PEP program and the reduction in interest costs.

## ANALYSIS OF SEGMENT RESULTS FOR THE QUARTER ENDED MARCH 29, 2009

### RONA: Key segment figures

(In thousands of dollars)	Q1-2009	Q1-2008 (restated)	\$ Change from Q1-2008	% Change from Q1-2008
<b>Segment sales</b>				
Corporate and franchise stores	617,092	683,029	(65,937)	(9.7%)
Distribution	476,374	491,401	(15,027)	(3.1%)
<b>Total</b>	<b>1,093,466</b>	<b>1,174,430</b>	<b>(80,964)</b>	<b>(6.9%)</b>
<b>Intersegment sales and royalties</b>				
Corporate and franchise stores	—	—	—	—
Distribution	(247,456)	(262,896)	15,440	(5.9%)
<b>Total</b>	<b>(247,456)</b>	<b>(262,896)</b>	<b>15,440</b>	<b>(5.9%)</b>
<b>Sales</b>				
Corporate and franchise stores	617,092	683,029	(65,937)	(9.7%)
Distribution	228,918	228,505	413	0.2%
<b>Total</b>	<b>846,010</b>	<b>911,534</b>	<b>(65,524)</b>	<b>(7.2%)</b>
<b>Operating income</b>				
Corporate and franchise stores	9,527	13,287	(3,760)	(28.3%)
Distribution	15,965	13,316	2,649	19.9%
<b>Total</b>	<b>25,492</b>	<b>26,603</b>	<b>(1,111)</b>	<b>(4.2%)</b>
<b>EBITDA margin</b>				
Corporate and franchise stores	1.54%	1.95%	—	– 41 b.p.
Distribution	6.97%	5.83%	—	+ 114 b.p.
<b>Total</b>	<b>3.01%</b>	<b>2.92%</b>	<b>—</b>	<b>+ 9 b.p.</b>

### Corporate and franchise stores

For first quarter 2009, sales from the corporate and franchise store segment amounted to \$617.1 million, down \$65.9 million or 9.7% from 2008. As mentioned in the discussion of our consolidated results, this decline is largely due to the low level of Canadian consumer confidence in the economy and the significant drop in housing starts in the West. This decline can also be attributed to a seasonal effect amplified by a period of intense cold weather in January, which affected sales of construction materials and forest products everywhere in the country. Especially poor weather conditions in Western Canada in March also partly explain this drop in same-store sales. The product categories that performed best in this quarter were paint, hardware supplies, heating and ventilation, and seasonal products. Related services such as installation have continued to post strong sales growth. The categories most affected by the economic conditions and the seasonal effect were construction materials and tools. RONA's customer loyalty and sales stimulation activities, combined with employee efforts to deliver the best service and the best shopping experience in the industry, could not fully compensate for these factors, resulting in a drop in the number of transactions and a reduction in the size of the average shopping basket during this quarter. Lower sales of construction materials also affected the size of the average shopping basket.

Several initiatives were introduced in 2008 and early 2009 to stimulate sales and ease the downward pressure on sales in our industry. These initiatives – such as the Project Guide, new RONA by Design concepts, new private brand and controlled label products, including a line of eco-responsible products, RONA ECO products, and Haussmann brand tools – have produced very good results.

In the first quarter of 2009, operating income from retail sales was \$9.5 million, compared to \$13.3 million in 2008. The EBITDA margin declined by 41 basis points from 1.95% in 2008 to 1.54% in 2009. The numerous efficiency improvements introduced under the PEP program in Phase 1 of the 2008–2011 strategic plan have helped offset more than half the negative impact due to the seasonal nature of our activities as well as the current recession. In the retail segment, the PEP program helped improve our gross margin, optimize our existing store network, and the process for opening new stores. It should also be noted that the positive impact of the PEP program on operating income is strongest in the first quarter due to the relatively low weight of this quarter in the fiscal year as a whole.

### Distribution

Net of intersegment activities, distribution sales increased by 0.2% to \$228.9 million in the first quarter of 2009, compared to \$228.5 million in 2008, stemming from the recruitment of new independent dealer-owners. Our existing affiliate network also posted a relatively strong performance, with a decline of only 3.2% in same-store retail sales this quarter. As in 2008, we will continue to expand the support functions we offer our affiliates to provide them with better management tools and help them achieve their numerous development projects.

In the quarter ended March 29, 2009, RONA recruited six new independent dealer-owners: two in Western Canada, one in Ontario and three in Quebec, representing annual retail sales of close to \$20 million.

Distribution activities generated operating income of \$16.0 million in first quarter 2009, compared to \$13.3 million in 2008, an increase of \$2.6 million or 19.9%. The EBITDA margin also increased by 114 basis points. These increases in operating income and EBITDA margin can be largely attributed to reduced transportation costs, better terms and conditions on purchases, and better demand management and supply planning. The increases were further boosted by the optimization of available supply channels, resulting in lower logistical costs. Together these improvements helped reduce same-store inventories in the RONA network by \$71 million in first quarter 2009 compared to first quarter 2008.

### CASH FLOWS AND FINANCIAL POSITION

Operations generated \$26.9 million in first quarter 2009, compared to \$21.5 million in 2008. Net of increases in working capital related to the growth and expansion of the retail and distribution network, operations resulted in cash outflows of \$68.1 million, compared to \$127.0 million in 2008, an improvement of 46.4%. As explained earlier, comparable inventories were reduced by \$71 million in first quarter 2009.

Comparable inventories were likewise significantly reduced in every quarter in 2008, as the following table shows:

#### Reductions in comparable inventories

(In millions of dollars)	Q1-2008	Q2-2008	Q3-2008	Q4-2008	Q1-2009
Inventories at end of the corresponding quarter the year before	\$944	\$959	\$872	\$856	\$967
Reduction in comparable inventories	\$83	\$118	\$80	\$118	\$71
Reduction (percent)	8.8%	12.3%	9.2%	13.8%	7.3%

During the first quarter, RONA invested \$40.9 million in capital spending, compared to \$42.1 million in 2008. At the beginning of the year, management indicated that it would reduce capital spending by nearly \$50 million in 2009. Although the first quarter shows a reduction of only \$1.2 million compared to 2008, RONA intends to reduce capital spending as promised in the forthcoming quarters. RONA expects to invest about \$150 million in capital spending in

2009, mainly in information technology upgrades, store renovations and new store construction. During the first quarter, RONA also disposed of non-strategic assets worth \$2.2 million.

The Company's net indebtedness as at March 29, 2009 totalled \$598.9 million. This is a reduction of \$222.3 million or 27.1% compared to 2008. The net debt has increased by \$108.6 million compared to year end 2008, however, due to the seasonal effects in the first quarter.

The table below presents a synopsis of the Company's contractual obligations as at March 29, 2009, including off-balance-sheet operating lease agreements used in the normal course of business. The Company has also concluded other off-balance-sheet arrangements (such as inventory buyback agreements and guaranteed mortgage loans) which do not appear on the table below. For a detailed description of these arrangements, please see note 10 of the Consolidated Financial Statements.

**RONA: Contractual obligations by term  
(as at March 29, 2009)**

Contractual obligations	Payments by term (thousands of dollars)				
	Total	Less than 1 year	1-2 years	3-4 years	5 years or more
Long-term loans	589,280	4,953	15,623	162,088	406,616
Obligations under capital leases	10,475	4,514	4,787	1,071	103
Operating and other leases	1,204,327	122,186	236,816	199,413	645,912
Other long-term obligations	31,080	15,330	13,213	2,537	-
<b>Total</b>	<b>1,835,162</b>	<b>146,983</b>	<b>270,439</b>	<b>365,109</b>	<b>1,052,631</b>

**RONA: Outstanding shares  
As at April 30, 2009**

Common shares	116,160,591
Unexercised options	2,040,944
<b>Total</b>	<b>118,201,535</b>

On March 29, 2009, the ratio of total debt to capital was 29.5%, compared to 38.4% at the end of first quarter 2008. The ratio of shareholders' equity to total assets was 53.9% at the end of first quarter 2009, compared to 48.5% at the same date in 2008.

RONA has access to \$650 million in revolving credit. At the end of this quarter, \$154 million had been drawn on that total. Renewal of this credit facility is projected for 2012, and the unsecured debentures that constitute the major portion of the Company's long-term debt mature in 2016.

**QUARTERLY INFORMATION**

RONA's results fluctuate significantly from one quarter to another due to the highly seasonal nature of construction/renovation activities. The strongest periods of the year are spring and fall, and over 80% of the Company's net annual earnings are generated in the second and third quarters. In addition, sales in the first quarter of the year are always lower than in the other three quarters, due to low activity levels in the construction/renovation sector during the winter. Poor weather conditions can have a major impact on sales. With the increase in the proportion of our activities related to the corporate store and franchise segment, and the greater proportion of products related to building materials, the seasonal impact of the first quarter has been more pronounced in 2007, 2008 and 2009 than in previous years. The second quarter is always the year's strongest, followed by the third.

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

	2009	2008 (restated)				2007 (not restated)			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Sales	846.0	1,124.6	1,381.7	1,473.3	911.5	1,087.0	1,350.5	1,469.1	878.5
Operating income	25.5	75.3	112.5	150.3	26.6	75.9	121.6	161.8	40.9
Operating income (excluding unusual items)	25.5	76.2	121.0	153.1	26.6	75.9	121.6	161.8	40.9
Net earnings (net loss)	(2.5)	29.8	52.5	76.6	(2.4)	30.5	59.4	86.2	9.0
Net earnings (net loss) (excluding unusual items)	(2.5)	30.4	58.9	80.6	(2.4)	30.5	59.4	86.2	9.0
Earnings (loss) per share (\$)	(0.02)	0.26	0.45	0.66	(0.02)	0.26	0.52	0.75	0.08
Earnings (loss) per share (\$) (excluding unusual items)	(0.02)	0.26	0.51	0.70	(0.02)	0.26	0.52	0.75	0.08
Diluted earnings (loss) per share (\$)	(0.02)	0.25	0.45	0.66	(0.02)	0.26	0.51	0.74	0.08
Diluted earnings (loss) per share (\$) (excluding unusual items)	(0.02)	0.26	0.50	0.69	(0.02)	0.26	0.51	0.74	0.08

Note: Results from 2008 have been restated so as to reflect the application of section 3064 of the Canadian Institute of Chartered Accountants (CICA) Handbook, *Goodwill and Intangible Assets*.

**Last nine quarters**

Q1-2007	Q2-2007	Q3-2007	Q4-2007	Q1-2008	Q2-2008	Q3-2008	Q4-2008	Q1-2009
-0.1%	+0.3%	-0.6%	-2.5%	-7.0%	-4.9%	-3.5%	-1.4%	-8.5%

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

**OUTLOOK**

As explained in some detail in the "Economic conditions" section, during the first quarter of 2009 several factors contributed to keep the level of Canadian consumer confidence at an historically low ebb. Unemployment was at its highest since 2003, reaching 7.7% in February, and the economic slowdown was more severe than anticipated. The Bank of Canada predicts that the recession in Canada will be deeper than expected and that the economy will contract by 3.0% in 2009, far more than the 1.2% contraction the Bank predicted in January. In addition, consumer confidence in institutions in general has been deeply shaken in the wake of the world financial crisis.

While the PEP program very largely helped offset the negative impact of the difficult economic conditions in 2008 and first quarter 2009, RONA management believes that the current economic environment could continue to have repercussions on the Company's business environment and, by extension, on its same-store sales and earnings in the next quarters.

As such, RONA intends to actively pursue the various measures under the PEP program to stimulate sales and improve efficiency over the next quarters. The Company will remain very vigilant throughout the year and be ready to adapt its operating activities and capital investments to the specific economic conditions expected in 2009. RONA plans to reduce capital spending from \$196.1 million in 2008 to approximately \$150 million in 2009, a reduction of nearly \$50 million or 25%. This measure, together with the planned reduction of inventories, and improvements to operational efficiency, will allow RONA to reduce its sales and administrative costs (excluding costs related to store openings and acquisitions), reduce its financial costs, and limit the increase in depreciation and amortization.

Management remains optimistic about the fundamental factors that support the demand for renovation projects, especially as this demand should be stimulated by the renovation tax credits announced by the federal and provincial governments in early 2009, and by RONA's own complementary incentives program. Management also believes that

the current market conditions present significant potential for further consolidation of the Canadian construction/renovation market and will therefore pursue its consolidation efforts in the next quarters.

## RISKS AND UNCERTAINTIES

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

## CHANGES IN ACCOUNTING POLICIES

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

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

(in thousands of dollars)

**Increase (decrease)**

December 28,  
2008

March 30,  
2008

### Consolidated Balance Sheets

#### Assets

Income taxes receivable	\$ 429	\$ 1,055
Prepaid expenses	(21,902)	(21,712)
Future income taxes – current	5,474	3,463
Other assets	(11,256)	(11,077)

#### Liabilities

Future income taxes – current	(393)	(322)
Future income taxes – long term	(2,694)	(4,033)
Non-controlling interest	122	67
Retained Earnings – beginning of year	(20,542)	(20,542)

March 30,  
2008

### Consolidated Earnings

Earnings before the following items	\$ (6,798)
Depreciation and amortization	(1,926)
Income taxes	(1,498)
Non-controlling interest	67
Net loss and comprehensive loss	(3,441)
Net loss per share – basic and diluted	(0.03)

### Consolidated Cash Flows

Net loss	\$ (3,441)
Depreciation and amortization	(1,926)
Future income taxes	(442)
Non-controlling interest	67
Changes in working capital items	4,637
Other assets	1,105

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

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

### **NEW ACCOUNTING STANDARDS NOT YET IMPLEMENTED**

#### **Business combinations**

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

#### **Consolidated financial statements and non-controlling interests**

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

#### **International Financial Reporting Standards (IFRS)**

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

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

The Company is currently in Phase 2 of its conversion plan, which covers employee training and detailed evaluation of potential impact. This phase is expected to continue until the end of the third quarter. Phase 3 is expected to begin at the beginning of the third quarter, and Phase 4 at the beginning of the fourth quarter. RONA expects to complete the conversion plan before the end of first quarter 2010. Changes in accounting policies are expected and are likely to have a notable impact on the Company's consolidated financial statements.

### **SIGNIFICANT ACCOUNTING ESTIMATES**

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

### **INTERNAL CONTROL OVER FINANCIAL REPORTING**

During the first quarter ended March 29, 2009, no change to internal control over financial reporting has occurred that has materially affected, or is reasonably likely to have materially affected, such control.

## FORWARD-LOOKING STATEMENTS

This MD&A includes "forward-looking statements" that involve risks and uncertainties. All statements other than statements of historical facts included in this MD&A, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the Company, may constitute forward-looking statements within the meaning of the Canadian securities legislation and regulations. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "plan," "foresee," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct.

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

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

The forward-looking statements in this MD&A reflect the Company's expectations as at May 12, 2009, and are subject to change after this date. The Company expressly disclaims any obligation or intention to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless required by the applicable securities laws.

## ADDITIONAL INFORMATION

This MD&A was prepared on May 12, 2009. The reader will find additional information concerning RONA, including the Company's Annual Information Form, on the Company's website at [www.rona.ca](http://www.rona.ca) or on the SEDAR website at [www.sedar.com](http://www.sedar.com).



Claude Guevin, CA  
Executive Vice-President  
Chief Financial Officer



Robert Dutton  
President  
Chief Executive Officer

**RONA inc.****Consolidated Earnings**

For the thirteen-week periods ended March 29, 2009 and March 30, 2008

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

	2009	2008
		(Restated – Note 2)
<b>Sales</b>	<b>\$ 846,010</b>	<b>\$ 911,534</b>
Earnings before the following items (Note 5)	25,492	26,603
Interest on long-term debt	5,325	7,662
Interest on bank loans	556	258
Depreciation and amortization	24,890	23,321
	30,771	31,241
Loss before income taxes and non-controlling interest	(5,279)	(4,638)
Income taxes	(1,605)	(1,428)
Loss before non-controlling interest	(3,674)	(3,210)
Non-controlling interest	(1,157)	(784)
<b>Net loss and comprehensive loss</b>	<b>\$ (2,517)</b>	<b>\$ (2,426)</b>
<b>Net loss per share (Note 13)</b>		
Basic and diluted	\$ (0.02)	\$ (0.02)

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

**RONA inc.**

**Consolidated Retained Earnings**

**Consolidated Contributed Surplus**

For the thirteen-week periods ended March 29, 2009 and March 30, 2008

(Unaudited, in thousands of dollars)

	2009	2008
		(Restated – Note 2)
<b>Consolidated Retained Earnings</b>		
Balance, beginning of period, as previously reported	\$ 1,053,166	\$ 892,967
Change in accounting policy – Goodwill and intangible assets (Note 2)	(24,290)	(20,542)
Restated balance, beginning of period	1,028,876	872,425
Net loss	(2,517)	(2,426)
<b>Balance, end of period</b>	<b>\$ 1,026,359</b>	<b>\$ 869,999</b>
<b>Consolidated Contributed Surplus</b>		
Balance, beginning of period	\$ 12,563	\$ 11,045
Compensation cost relating to stock option plans	302	379
<b>Balance, end of period</b>	<b>\$ 12,865</b>	<b>\$ 11,424</b>

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

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

For the thirteen-week periods ended March 29, 2009 and March 30, 2008

(Unaudited, in thousands of dollars)

	2009	2008
		(Restated – Note 2)
<b>Operating activities</b>		
Net loss	\$ (2,517)	\$ (2,426)
Non-cash items		
Depreciation and amortization	24,890	23,321
Derivative financial instruments	(1,242)	568
Future income taxes	7,757	(364)
Net (gain) loss on disposal of assets	(1,654)	28
Compensation cost relating to stock option plans	302	379
Non-controlling interest	(1,157)	(784)
Other items	535	769
	<u>26,914</u>	<u>21,491</u>
Changes in working capital items	(94,995)	(148,468)
Cash flows from operating activities	<u>(68,081)</u>	<u>(126,977)</u>
<b>Investing activities</b>		
Business acquisition (Note 7)	–	(2,128)
Advances to joint ventures and other advances	(419)	5,943
Other investments	(526)	–
Fixed assets	(40,943)	(42,135)
Other assets	(1,380)	(997)
Disposal of fixed assets	2,171	220
Disposal of investments	471	2,811
Cash flows from investing activities	<u>(40,626)</u>	<u>(36,286)</u>
<b>Financing activities</b>		
Bank loans and revolving credit	113,665	152,723
Other long-term debt	188	1,977
Repayment of other long-term debt and redemption of preferred shares	(2,204)	(3,018)
Issue of common shares	348	556
Cash flows from financing activities	<u>111,997</u>	<u>152,238</u>
<b>Net increase (decrease) in cash</b>	<b>3,290</b>	<b>(11,025)</b>
Cash, beginning of period	12,345	2,866
Cash (outstanding cheques) , end of period	<u>\$ 15,635</u>	<u>\$ (8,159)</u>
<b>Supplementary information</b>		
Interest paid	\$ 12,208	\$ 15,124
Income taxes paid	\$ 13,804	\$ 23,883

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

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

March 29, 2009, March 30, 2008 and December 28, 2008

(In thousands of dollars)

	March 29, 2009	March 30, 2008	December 30, 2008
	(Unaudited)	(Restated - Note 2) (Unaudited)	(Restated - Note 2)
<b>Assets</b>			
Current assets			
Cash	\$ 15,635	\$ -	\$ 12,345
Accounts receivable	281,566	298,362	234,027
Income taxes receivable	29,641	30,630	6,475
Inventory (Note 4)	904,697	966,932	763,239
Prepaid expenses	28,853	27,769	11,202
Derivative financial instruments	290	139	1,089
Future income taxes	11,660	13,983	19,274
	<u>1,272,342</u>	<u>1,337,815</u>	<u>1,047,651</u>
Investments	10,356	12,143	10,186
Fixed assets	862,633	795,742	875,634
Fixed assets held for sale (Note 8)	63,926	42,317	34,870
Goodwill	454,889	457,547	454,889
Trademarks	3,710	4,058	3,797
Other assets	27,669	16,968	27,210
Future income taxes	23,893	22,499	24,681
	<u>\$ 2,719,418</u>	<u>\$ 2,689,089</u>	<u>\$ 2,478,918</u>
<b>Liabilities</b>			
Current liabilities			
Outstanding cheques	\$ -	\$ 8,159	\$ -
Bank loans	9,622	18,997	8,468
Accounts payable and accrued liabilities	556,278	492,079	422,318
Derivative financial instruments	139	607	2,180
Future income taxes	4,318	2,895	4,461
Instalments on long-term debt	15,866	40,146	15,696
	<u>586,223</u>	<u>562,883</u>	<u>453,123</u>
Long-term debt	589,015	753,859	478,475
Other long-term liabilities	29,207	25,382	28,571
Future income taxes	20,804	18,363	21,304
Non-controlling interest	27,811	25,429	29,220
	<u>1,253,060</u>	<u>1,385,916</u>	<u>1,010,693</u>
<b>Shareholders' equity</b>			
Capital stock (Note 9)	427,134	421,750	426,786
Retained earnings	1,026,359	869,999	1,028,876
Contributed surplus	12,865	11,424	12,563
	<u>1,466,358</u>	<u>1,303,173</u>	<u>1,468,225</u>
	<u>\$ 2,719,418</u>	<u>\$ 2,689,089</u>	<u>\$ 2,478,918</u>

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

## RONA inc.

### Notes to Interim Consolidated Financial Statements

March 29, 2009 and March 30, 2008

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

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#### 1. Basis of presentation

The accompanying unaudited interim consolidated financial statements are in accordance with Canadian generally accepted accounting principles for interim financial statements and do not include all the information required for complete financial statements. They are also consistent with the policies outlined in the Company's audited financial statements for the year ended December 28, 2008, except for the change in accounting policy described in Note 2. The interim financial statements and related notes should be read in conjunction with the Company's audited financial statements for the year ended December 28, 2008. The interim operating results do not necessarily reflect the results for the full fiscal year. Accordingly, the comparative balance sheet as at March 30, 2008 is also included to reflect seasonal fluctuations that characterize the hardware, renovation and home garden industry. When necessary, the financial statements include amounts based on estimated information and management's best judgments.

#### 2. Changes in accounting policies

##### Goodwill and intangible assets

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

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

Increase (decrease)	December 28, 2008	March 30, 2008
<b>Consolidated Balance Sheets</b>		
<b>Assets</b>		
Income taxes receivable	\$ 429	\$ 1,055
Prepaid expenses	(21,902)	(21,712)
Future income taxes – current	5,474	3,463
Other assets	(11,256)	(11,077)
<b>Liabilities</b>		
Future income taxes – current	(393)	(322)
Future income taxes – long term	(2,694)	(4,033)
Non-controlling interest	122	67
Retained Earnings – beginning of year	(20,542)	(20,542)

**RONA inc.**  
**Notes to Interim Consolidated Financial Statements**  
March 29, 2009 and March 30, 2008  
(Unaudited, in thousands of dollars, except amounts per share)

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

**Goodwill and intangible assets (continued)**

	March 30, 2008
<b>Consolidated Earnings</b>	
Earnings before the following items	\$ (6,798)
Depreciation and amortization	(1,926)
Income taxes	(1,498)
Non-controlling interest	67
Net loss and comprehensive loss	(3,441)
Net loss per share – basic and diluted	(0.03)
<b>Consolidated Cash Flows</b>	
Net loss	\$ (3,441)
Depreciation and amortization	(1,926)
Future income taxes	(442)
Non-controlling interest	67
Changes in working capital items	4,637
Other assets	1,105

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

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

## **RONA inc.**

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

March 29, 2009 and March 30, 2008

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

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#### **3. Effect of new accounting standards not yet implemented**

##### **Business combinations**

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

##### **Consolidated financial statements and non-controlling interests**

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

##### **International Financial Reporting Standards (IFRS)**

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

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

#### **4. Inventory**

For the thirteen-week period ended March 29, 2009, \$606,998 of inventory was expensed in the consolidated results (\$656,547 as at March 30, 2008). These amounts include an inventory write-down charge of \$6,863 (\$7,790 as at March 30, 2008).

## RONA inc.

### Notes to Interim Consolidated Financial Statements

March 29, 2009 and March 30, 2008

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

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#### 5. Store closing costs

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

In April 2008, management approved a detailed plan to close four of its stores included in the corporate and franchised stores segment. Three of these stores were closed in 2008 and one will close in 2009. During the thirteen-week period ended March 29, 2009, the Company recognized costs of \$525 relating to an inventory write-down. Additional estimated costs of \$2,980 relating to store closures, notably lease obligations will be recorded by the Company when the criteria for recognition have been met. The liability for exit and disposal costs and write-down of assets was \$3,223 as at March 29, 2009.

##### Other closing costs

During the thirteen-week period ended March 29, 2009, in addition to the exit and disposal costs and write-down of assets, the Company recorded operating costs, including interest and depreciation, for the liquidation of the assets of these stores in the amount of \$1,026. The Company estimates that additional costs of \$229 will be incurred in the next quarter to complete the liquidation of one of these stores' assets.

#### 6. Vendor rebates

In accordance with EIC-144 *Accounting by a customer (including a reseller) for certain consideration received from a vendor*, the Company must disclose the amount recognized for which the full requirements for vendor rebate entitlement have not yet been met. For the thirteen-week period ended March 29, 2009, the Company recognized an amount of \$3,954 (\$4,481 as at March 30, 2008) which was estimated based on the attainment of specified requirements to receive the rebates.

**RONA inc.**  
**Notes to Interim Consolidated Financial Statements**  
March 29, 2009 and March 30, 2008  
(Unaudited, in thousands of dollars, except amounts per share)

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**7. Business acquisition**

During the thirteen-week period ended March 30, 2008, the Company acquired one company, operating in the corporate and franchised stores segment, by way of an asset purchase. Taking direct acquisition costs into account, this acquisition was for a total consideration of \$5,389. The Company financed this acquisition from its existing credit facilities. The results of operations of this company are consolidated from its date of acquisition.

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

	<u>2008</u>
Accounts receivable	\$ 2,037
Inventory	1,903
Other current assets	35
Fixed assets	634
Goodwill	2,665
Current liabilities	<u>(1,885)</u>
	5,389
Less: Accrued direct acquisition costs	(162)
Balance of purchase price	<u>(3,099)</u>
Cash consideration paid	<u>\$ 2,128</u>

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The Company expects that an amount of \$1,689 of goodwill will be deductible for tax purposes.

**8. Fixed assets held for sale**

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

During the period ended March 29, 2009 the Company disposed of two parcels of land and buildings which had been held for sale and recorded a gain on disposition of \$1,521.

**RONA inc.**  
**Notes to Interim Consolidated Financial Statements**  
 March 29, 2009 and March 30, 2008  
 (Unaudited, in thousands of dollars, except amounts per share)

**9. Capital stock**

**Issued and fully paid:**

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

	March 29, 2009	
	Number of shares	Amount
Balance, beginning of period	115,819,699	\$ 423,477
Issuance in exchange for common share subscription deposits	328,692	3,744
Issuance in exchange for cash	10,360	120
Balance before elimination of reciprocal shareholdings	116,158,751	427,341
Elimination of reciprocal shareholdings	(80,251)	(524)
Balance, end of period	116,078,500	426,817
Deposits on common share subscriptions, net of eliminations of joint ventures <sup>(a)</sup>		317
		\$ 427,134
	March 30, 2008	
	Number of shares	Amount
Balance, beginning of period	115,412,766	\$ 418,246
Issuance in exchange for common share subscription deposits	197,854	3,350
Issuance in exchange for cash	20,764	290
Balance before elimination of reciprocal shareholdings	115,631,384	421,886
Elimination of reciprocal shareholdings	(72,396)	(435)
Balance, end of period	115,558,988	421,451
Deposits on common share subscriptions, net of eliminations of joint ventures <sup>(a)</sup>		299
		\$ 421,750
	December 28, 2008	
	Number of shares	Amount
Balance, beginning of year	115,412,766	\$ 418,246
Issuance in exchange for common share subscription deposits	197,854	3,349
Issuance under stock option plans	89,000	309
Issuance in exchange for cash	120,079	1,573
Balance before elimination of reciprocal shareholdings	115,819,699	423,477
Elimination of reciprocal shareholdings	(72,396)	(435)
Balance, end of year	115,747,303	423,042
Deposits on common share subscriptions, net of eliminations of joint ventures <sup>(a)</sup>		3,744
		\$ 426,786

(a) Deposits on common share subscriptions represent amounts received during the period from affiliated and franchised merchants in accordance with commercial agreements. These deposits are exchanged for common shares on an annual basis.

**RONA inc.**  
**Notes to Interim Consolidated Financial Statements**  
March 29, 2009 and March 30, 2008  
(Unaudited, in thousands of dollars, except amounts per share)

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**9. Capital stock (continued)**

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

The Company adopted a stock option plan for designated senior executives which was approved by the shareholders on May 1, 2002. A total of 2,920,000 options were granted at that date. Options granted under the plan may be exercised since the Company made a public share offering on November 5, 2002. The Company can grant options for a maximum of 3,740,000 common shares. As at March 29, 2009 the 2,920,000 options granted have an exercise price of \$3.47 and of this number, 1,538,500 options (1,449,500 options as at March 30, 2008) were exercised.

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

No compensation cost was expensed with respect to this plan for the thirteen-week periods ended March 29, 2009 and March 30, 2008.

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

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

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

**RONA inc.**  
**Notes to Interim Consolidated Financial Statements**  
March 29, 2009 and March 30, 2008  
(Unaudited, in thousands of dollars, except amounts per share)

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**9. Capital stock (continued)**

As at March 29, 2009, the 2,475,752 options (1,944,052 options as at March 30, 2008) granted have exercise prices ranging from \$10.62 to \$26.87 (\$14.18 to \$26.87 as at March 30, 2008) and of this number, 85,100 options (85,100 options as at March 30, 2008) have been exercised and 611,325 options (180,300 options as at March 30, 2008) have been forfeited.

The fair value of stock options granted was estimated at the grant date using the Black-Scholes option-pricing model on the basis of the following weighted average assumptions for the stock options granted during the period:

	<u>March 29, 2009</u>	<u>March 30, 2008</u>
Weighted average fair value per option granted	\$4.11	\$4.42
Risk-free interest rate	1.98 %	3.25 %
Expected volatility in stock price	35 %	26 %
Expected annual dividend	0 %	0 %
Expected life (years)	6	6

Compensation cost expensed with respect to this plan was \$302 for the thirteen-week period ended March 29, 2009 (\$379 as at March 30, 2008).

**RONA inc.**  
**Notes to Interim Consolidated Financial Statements**  
 March 29, 2009 and March 30, 2008  
 (Unaudited, in thousands of dollars, except amounts per share)

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**9. Capital stock (continued)**

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

	March 29, 2009	
	Options	Weighted average exercise price
Balance, beginning of period	2,981,002	\$ 11.46
Granted	516,700	10.62
Forfeited	(336,875)	19.98
Balance, end of period	<u>3,160,827</u>	<u>10.41</u>
Options exercisable, end of period	<u>2,040,944</u>	<u>\$ 7.64</u>

	March 30, 2008	
	Options	Weighted average exercise price
Balance, beginning of period	2,922,552	\$ 11.31
Granted	243,200	14.18
Forfeited	(16,600)	21.24
Balance, end of period	<u>3,149,152</u>	<u>11.48</u>
Options exercisable, end of period	<u>2,054,569</u>	<u>\$ 7.06</u>

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

**RONA inc.**  
**Notes to Interim Consolidated Financial Statements**  
 March 29, 2009 and March 30, 2008  
 (Unaudited, in thousands of dollars, except amounts per share)

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**9. Capital stock (continued)**

The following table summarizes information relating to stock options outstanding as at March 29, 2009:

Exercise price	Expiration date	Options outstanding	Options exercisable
\$ 3.47	December 31, 2012	1,381,500	1,381,500
\$ 10.62	March 11, 2019	516,700	–
\$ 10.86	December 9, 2018	15,000	–
\$ 14.18	March 1, 2018	211,500	54,525
\$ 14.29	December 16, 2013	420,850	420,850
\$ 20.27	December 22, 2014	99,250	99,250
\$ 21.21	February 24, 2016	319,500	–
\$ 21.78	September 1, 2016	17,576	4,394
\$ 23.58	March 8, 2017	155,875	80,425
\$ 23.73	April 5, 2015	5,500	–
\$ 26.87	February 24, 2016	17,576	–
		3,160,827	2,040,944

**10. Guarantees**

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

The Company guarantees mortgages for an amount of \$1,721. 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 \$5,807.

Pursuant to the terms of inventory repurchase agreements, the Company is committed towards financial institutions to buy back the inventory of certain customers at an average of 62% of the cost of the inventory to a maximum of \$69,168. In the event of recourse, this inventory would be sold in the normal course of the Company’s operations. These agreements have undetermined periods but may be cancelled by the Company with a 30-day advance notice. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low.

## RONA inc.

### Notes to Interim Consolidated Financial Statements

March 29, 2009 and March 30, 2008

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

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#### 11. Employee future benefits

As at March 29, 2009, the Company has nine defined contribution pension plans and four defined benefit pension plans. The net pension expense for the benefit plans is as follows:

	2009	2008
Cost recognized for defined contribution pension plans	\$ 2,372	\$ 2,176
Cost recognized for defined benefit pension plans	402	197
Net employee future benefit costs	\$ 2,774	\$ 2,373

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#### 12. Segmented information

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

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

**RONA inc.**  
**Notes to Interim Consolidated Financial Statements**  
 March 29, 2009 and March 30, 2008  
 (Unaudited, in thousands of dollars, except amounts per share)

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**12. Segmented information (continued)**

	2009	2008 (Restated)
<b>Segment sales</b>		
Corporate and franchised stores	\$ 617,092	\$ 683,029
Distribution	476,374	491,401
Total	<u>1,093,466</u>	<u>1,174,430</u>
<b>Intersegment sales and royalties</b>		
Corporate and franchised stores	-	-
Distribution	(247,456)	(262,896)
Total	<u>(247,456)</u>	<u>(262,896)</u>
<b>Sales</b>		
Corporate and franchised stores	617,092	683,029
Distribution	228,918	228,505
Total	<u>846,010</u>	<u>911,534</u>
<b>Earnings before interest, depreciation and amortization, rent, income taxes and non-controlling interest</b>		
Corporate and franchised stores	38,002	41,712
Distribution	21,417	19,040
Total	<u>59,419</u>	<u>60,752</u>
<b>Earnings before interest, depreciation and amortization, income taxes and non-controlling interest</b>		
Corporate and franchised stores	9,527	13,287
Distribution	15,965	13,316
Total	<u>25,492</u>	<u>26,603</u>
<b>Acquisition of fixed assets</b>		
Corporate and franchised stores	31,499	38,498
Distribution	9,444	4,271
Total	<u>40,943</u>	<u>42,769</u>
<b>Goodwill</b>		
Corporate and franchised stores	-	2,665
Distribution	-	-
Total	<u>-</u>	<u>2,665</u>
<b>Total assets</b>		
Corporate and franchised stores	2,192,280	2,246,290
Distribution	527,138	442,799
Total	<u>\$ 2,719,418</u>	<u>\$ 2,689,089</u>

**RONA inc.**  
**Notes to Interim Consolidated Financial Statements**  
 March 29, 2009 and March 30, 2008  
 (Unaudited, in thousands of dollars, except amounts per share)

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**13. Net loss per share**

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

	<u>2009</u>	<u>2008</u>
		(Restated – Note 2)
<b>Net loss</b>	<b>\$ (2,517)</b>	<b>\$ (2,426)</b>
<b>Number of shares (in thousands)</b>		
Weighted average number of shares used to compute basic net loss per share	116,076.1	115,544.5
Effect of dilutive stock options <sup>(a)</sup>	–	–
Weighted average number of shares used to compute diluted net loss per share	<u>116,076.1</u>	<u>115,544.5</u>
<b>Net loss per share – basic and diluted</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>

(a) As at March 29, 2009, 3,160,827 common share stock options (3,149,152 options as at March 30, 2008) were excluded from the calculation of diluted net loss per share since the Company incurred a loss and inclusion would have created an antidilutive effect.

RONA is the largest Canadian distributor and retailer of hardware, home renovation and gardening products. RONA operates a network of nearly 700 corporate, franchise and affiliate stores of various sizes and formats. With over 29,000 employees working under its family of banners in every region of Canada and more than 15 million square feet of retail space, the RONA store network generates over \$6.3 billion in annual retail sales. Visit [www.rona.ca](http://www.rona.ca).

