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

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

RONA's sales include:

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

FINANCIAL STATEMENTS

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

NON-GAAP PERFORMANCE MEASURES

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

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

NEW ACCOUNTING STANDARD

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

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

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

Prepaid expenses were also reduced by $32.0 million, other assets by $5.8 million, and retained earnings by $20.5 million. The detailed impact of applying these new recommendations during the first period of application of Section 3064 is explained on page 15 of this report and in Note 2 of the Consolidated Financial Statements.

UPDATE ON THE COMPANY'S STRATEGIC ORIENTATION

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

Achievements in second quarter 2009

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

1. Improve the profitability of our corporate store network:
    - Consolidated gross margin increased by 20 basis points. Including improved terms and conditions from our suppliers to support the growth of the network, the adjusted gross margin increased by 41 basis points. These increases stem from a reduction in store losses ("shrink") and further improvements in purchasing conditions from our suppliers.
    - The big-box Réno-Dépôt store in Lasalle, Quebec, was entirely rebuilt and expanded following the demolition of the old store with the same banner in the same location. The new store measures 130,000 square feet.
    - Our turnaround plan for underperforming stores is producing very good results, as these stores have posted relatively better sales and operating income progress than the network as a whole during this quarter.
    - In-depth studies of new product categories were conducted in this quarter and will be considered in selecting products in the future, especially with regard to safety and security products, small appliances, work and gardening clothes, and auto care products.

- New store concepts are under study for deployment in Phase 2 of the RONA 2008-2011 strategic plan, which should mark a return to accelerated growth. One of these concepts – a specialized store unique in the industry – is ready to be unveiled. In addition to offering carefully selected interior decorating products and an innovative approach to paint selection, the new concept will provide an unrivalled consultation and technical support service designed to meet the needs of paint and interior decorating professionals as well as regular Canadian consumers. This concept will initially be introduced this coming fall at three different locations in the Greater Montreal Area.

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

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

4. Improve sales and increase customer loyalty across the RONA network:
    - Over 10% growth in commercial and professional sales for big-box stores in Ontario, achieved through close cooperation with the specialized sales team in our Commercial and Professional Market division.
    - Same-store sales growth for Noble Trade Plumbing Supplies, despite a declining market.
    - Increase of over 15% in installation service sales.
    - A major increase in applications for the RONAdvantage program, which provides rebates in the form of gift certificates to a maximum of $1,000 as a complementary incentive under the new renovation tax credit programs. Nearly 10,000 applications have been received to date across the RONA network. RONAdvantage is the industry's only ongoing complementary incentive program for the renovation tax credits. The program is receiving increasing support from the various levels of government.
    - Launch of new controlled-label HAUSSMANN and HAUSSMANN XPERT top-quality tool products, now available in all RONA stores, including Réno-Dépôt in Quebec. HAUSSMANN and HAUSSMANN XPERT tools and accessories are exclusive to RONA and make use of the latest technology in the professional tool industry.

- Introduction of 40 new RONA ECO products. Selected in partnership with the International Chair in Life Cycle Analysis, these new products include a manual lawn mower, reconditioned tool blades, mouldings, an algae-based fertilizer and a rainwater collector.
- Increased penetration by RONA private brand and controlled-label products to over 18% in the second quarter, despite a slight decrease in sales.
- RONA ranked twelfth among 100 companies in the annual Léger Marketing survey of the reputations of Canadian companies, up from fifteenth in 2008. The results of this survey were published in the latest edition of *Marketing* magazine, and RONA was rated first among all renovation sector companies. RONA also made it to 18th position among the top Canadian businesses in the Corporate Knights annual Best 50 Corporate Citizens rankings. In its first appearance in this ranking, RONA achieved the second-highest score in the retail sector and the highest in the home improvement retail industry.

ANALYSIS OF CONSOLIDATED RESULTS

Economic conditions

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

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

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

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

Consolidated sales

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

Gross margin

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

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

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

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

Consolidated operating income

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

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

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

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

Interest, amortization and depreciation

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

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

Net earnings

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

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

ANALYSIS OF SEGMENT RESULTS

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

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

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

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

Corporate and franchise stores

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

RONA's customer loyalty and sales stimulation activities, combined with employee efforts to deliver the best service and best shopping experience in our industry, helped limit the decreases in numbers of in-store transactions. Given the low level of consumer confidence, our customers seem to have limited themselves to smaller renovation projects this quarter, leading to downward pressure on the size of the average shopping basket. The categories that posted the best performance this quarter were those related to small home improvement projects such as paint and hardware. Related services, such as installation, continued to show strong sales growth. It is important to remember, however, that the enormous popularity of the provincial and federal tax credit programs may encourage consumers to invest more in renovating their properties in the coming quarters.

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

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

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

Distribution

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

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

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

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

ANALYSIS OF CONSOLIDATED RESULTS FOR THE FIRST HALF OF 2009

Consolidated sales

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

Gross margin

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

Consolidated operating income

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

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

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

Interest, amortization and depreciation

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

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

Net earnings

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

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

ANALYSIS OF SEGMENT RESULTS FOR THE FIRST HALF OF 2009

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

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

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

Corporate and franchise stores

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

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

Distribution

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

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

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

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

CASH FLOWS AND FINANCIAL POSITION

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

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

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

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

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

The table below presents a synopsis of the Company's contractual obligations as at June 28, 2009, including off-balance-sheet operating lease agreements used in the normal course of business. The Company has also concluded other off-balance-sheet arrangements (such as inventory buyback agreements and guaranteed mortgage loans), which do not appear on the table below. The Company guarantees mortgages for an amount of $1.6 million. The terms of these loans extend until 2012 and the net carrying amount of the assets held as security, which mainly include land and buildings, is $5.8 million. Pursuant to the terms of inventory repurchase agreements, the Company is committed to financial institutions to buy back the inventory of certain customers at an average of 62% of the cost of the inventory, to a maximum of $69.1 million. In the event of recourse, this inventory would be sold in the normal course of the Company's operations. These agreements have undetermined periods but may be cancelled by the Company on 30 days' notice. In the opinion of management, the likelihood that significant payments would be incurred as a result of these commitments is low. Finally, import letters of credit totalling nearly $10 million were in circulation at the end of the quarter for the purchase of a variety of products (mainly seasonal).

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

Contractual obligations	Payments by term (thousands of dollars)				
	Total	Less than 1 year	1-2 years	3-4 years	5 years and more
Long-term loans	438,387	4,732	15,524	12,052	406,079
Obligations under capital leases	9,238	4,098	4,187	865	88
Operating and other leases	1,170,756	121,028	229,244	196,309	624,175
Other long-term obligations	28,580	15,617	10,938	2,025	-
Total	1,646,961	145,475	259,893	211,251	1,030,342

RONA: Outstanding shares
As at July 31, 2009

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

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

The Company's operations generate substantial cash flow. With relatively low debt and long-term fixed rates on most of its long-term debt, RONA also has substantial liquidity and can borrow many millions more at competitive rates. Our financial resources are therefore sufficient to pursue disciplined development of our four growth vectors: growing sales in our existing store network, construction of new corporate and franchise stores, recruitment of new affiliate stores and acquisitions.

QUARTERLY INFORMATION

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

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

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

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

Annual growth in same-store sales
Last nine quarters

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

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

OUTLOOK

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

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

SUBSEQUENT EVENT

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

RISKS AND UNCERTAINTIES

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

CHANGES IN ACCOUNTING POLICIES

Goodwill and intangible assets

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

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

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

	As at December 28, 2008		
	Previously reported	Adjustments	Restated
Consolidated balance sheets			
Assets			
Income taxes receivable	$ 6,046	$ 429	$ 6,475
Prepaid expenses	33,104	(21,902)	11,202
Future income taxes – current	13,800	5,474	19,274
Other assets	38,466	(11,256)	27,210
Liabilities			
Future income taxes – current	4,854	(393)	4,461
Future income taxes – long term	23,998	(2,694)	21,304
Non-controlling interest	29,098	122	29,220
Retained earnings – beginning of year	892,967	(20,542)	872,425

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

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

New accounting standards not yet implemented

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

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

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

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

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

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

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

Internal control over financial reporting

During the second quarter ended June 28, 2009, no change to internal control over financial reporting has occurred that has materially affected, or is reasonably likely to have materially affected, such control.

FORWARD-LOOKING STATEMENTS

This MD&A includes "forward-looking statements" that involve risks and uncertainties. All statements other than statements of historical facts included in this MD&A, including statements regarding the prospects of the industry and prospects, plans, financial position and business strategy of the Company, may constitute forward-looking statements within the meaning of the Canadian securities legislation and regulations. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," anticipate," "plan," "foresee," "believe" or "continue" or the negatives of these terms or variations of them or similar terminology. Although the Company believes that the expectations reflected in these forward-looking statements are reasonable, it can give no assurance that these expectations will prove to have been correct. Forward-looking statements do not take into account the impact that transactions or non-recurring or other special items announced or occurring after the statements are made have on the Company's business. For example, they do not include the impact of dispositions, acquisitions, other business transactions, asset write-downs or other charges announced or occurring after forward-looking statements are made.

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

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

ADDITIONAL INFORMATION

This MD&A was prepared on August 11, 2009. The reader will find additional information concerning RONA, including the Company's Annual Information Form, on the Company's website at www.rona.ca or on the SEDAR website at www.sedar.com.

Claude Guévin (signed)

Claude Guévin, CA
Executive Vice-President
Chief Financial Officer

Robert Dutton (signed)

Robert Dutton
President
Chief Executive Officer