Carrefour

MANAGEMENT'S DISCUSSION AND ANALYSIS
Year Ended December 31, 2013

Contents

This is a free translation in English of the Group's 2013 Management's Discussion and Analysis issued in the French language, provided solely for the convenience of English speaking users.

Carrefour

1. **Sales and earnings performance**

1.1 Main earnings indicators

(In € millions)	2013	2012*	% change	% change at constant exchange rates
Net sales	**74,888**	**75,673**	**(1.0)%**	**2.0%**
Recurring operating income	**2,238**	**2,124**	**5.3%**	**9.8%**
Non-recurring operating income and expenses, net	144	(660)	na	na
Finance costs and other financial income and expenses, net	(722)	(883)	(18.3)%	(13.7)%
Income tax expense	(631)	(380)	65.9%	73.0%
Net income from continuing operations - Group share	**949**	**150**		
Net income from discontinued operations - Group share	314	1,109		
Net income - Group share	**1,263**	**1,259**		
Free cash flow (including non-recurring items)	**26**	**765**		
Net debt at 31 December	**4,117**	**4,320**		

The Group's 2013 confirm a growth momentum with strong growth in Group earnings at constant exchange rates:

- Sales increased by 2.0% at constant exchange rates, with improvement in all formats in France, a significant recovery in the second half in Europe, a remarkable increase in Latin America, and faster growth in Asia.
- Recurring operating income came in at €2,238 million, a 9.8% gain at constant exchange rates; Europe (including France) posted growth of 11.3% while recurring operating income in emerging markets (Latin America and Asia) was up 8.5%.
- Non-recurring items represented net income of €144 million, contrasting sharply with the €660 million net expense reported in 2012. The main item of non-recurring income was the gain realized on the sale of the Group's interest in the joint venture with Majid Al Futtaim Holding.
- Finance costs and other financial income and expenses represented a net expense of €722 million, a €161 million improvement that was mainly due to lower finance costs and one-off finance charges compared with the previous year.
- Income tax expense amounted to €631 million, representing an effective tax rate of 38%.
- Net income from continuing operations (Group share) stood at €949 million, a six fold increase over 2012.
- Discontinued operations contributed net income of €314 million, corresponding mainly to the capital gain realized on the sale of operations in Indonesia and the Group's share of the results for the period in Turkey.
- Taking into account all of these items, the Group ended the year with net income (Group share) of €1,263 million, versus €1,259 million in 2012.
- Free cash flow stood at €26 million in 2013 compared with €765 million in 2012, after taking into account significantly higher capital spending for the year, with net outflows up €147 million, and one-off payments totaling €1,064 million in settlement in several old tax disputes.

* 2012 data have been restated to reflect (i) the reclassification of operations as "Discontinued operations" as from January 1, 2012, in accordance with IFRS 5, and (ii) the changes in standards and presentation described in Note 1 to the consolidated financial statements.

1.2 Analysis of the main income statement items

Net sales by region

The Group's operating segments consist of the countries in which it does business, combined by region, and "Global functions", corresponding to the holding companies and other administrative, finance and marketing support entities.

(In € millions)	2013	2012	% change	% change at constant exchange rates
France	35,438	35,341	0.3%	0.3%
Rest of Europe	19,220	19,786	(2.9)%	(2.9)%
Latin America	13,786	14,174	(2.7)%	13.0%
Asia	6,443	6,373	1.1%	2.6%
Total	**74,888**	**75,673**	**(1.0)%**	**2.0%**

Net sales before loyalty program costs totaled €74,888 million, up 2% at constant exchange rates.

Performance by region can be explained as follows:

- In France, the various activities saw enhanced attractiveness and returned to ex-petrol organic sales growth in all formats.
- In the Rest of Europe, sales declined by 2.9% at constant exchange rates, Sales improved markedly in the second half, in particularly in Spain. Spain thus continued it recovery and posted quarterly like for like growth in the fourth quarter for the first time since 2008 while in Italy the environment remained difficult.
- Latin America posted very strong sels growth, rising by a strong 13% in local currency on an already high comparable basis in 2012. The negative currency effect led to a decrease at current exchange rates of 2.7%.
- In Asia, sales rose by 2.6% at constant exchange rates posting faster growth as compared to 2012. At current exchange rates, sales were up by 1.1%, amid a slowdown in consumption in the fourth quarter.

Net sales by region – contribution to the consolidated total

In %	2013 (1)	2012
France	45.9%	46.7%
Rest of Europe	24.9%	26.1%
Latin America	20.7%	18.7%
Asia	8.5%	8.4%
Total	**100.0%**	**100.0%**

(1) at constant exchange rates

At constant exchange rates, the contribution of emerging markets (Latin America and Asia) to consolidated net sales continued to rise, representing 29.2% in 2013 versus 27.1% in 2012.

Recurring operating income by region

(In € millions)	2013	2012	% change	% change at constant exchange rates
France	1,198	922	29.9%	29.9%
Rest of Europe	388	503	(22.8)%	(22.9)%
Latin America	627	608	3.2%	18.6%
Asia	131	179	(27.0)%	(25.8)%
Global functions	(106)	(87)	22.1%	22.4%
Total	**2,238**	**2,124**	**5.3%**	**9.8%**

Recurring operating income amounted to €2,238 million, up 9.8% at constant exchange rates and representing 3.0% of sales, compared with 2.8% in 2012.

The increase reflected:

- A higher gross margin, representing 22.7% of sales versus 22.2% in 2012.
- Tight control of general and administrative expenses (including asset costs), with the increase contained at a below-inflation 1.1%.

In France, recurring operating income at €1,198 million recorded very strong growth of 30% or +80 basis points in operating margin to 3.4% of sales. All formats contributed to this performance which constitutes the third consecutive half of year-on-year growth. This increase is attributable to:

- Improved gross margin as a result of an improved balance between everyday low prices, promotions and loyalty programs and lower shrinkage
- Good control of operating costs.

In the Rest of Europe, over the year, gross margin increased with constant attention to price positioning. Growth in operating costs was contained. Recurring operating income stood at €388 million. Profitability Improved in the second half with an increase in operating margin of 10 basis points to 3.5% of sales, demonstrating the effectiveness of the operating model.

Recurring operating income in Latin America came to €627 million, an increase of 18.6% at constant exchange rates. Carrefour posted excellent performance in Brazil in all formats: Hypermarkets continued to improve their performance while Atacadão consolidated its leadership, with expansion bringing its store network to almost 100 outlets at year end. Argentina performed prety well in a context of government-mandated price freeze and increasing wages

In Asia, recurring operating income came to €131 million versus €179 million in 2012. Gross margin was stable as a percentage of sales, while selling expenses were impacted by wage inflation and by business expansion costs in China, where the Group opened 20 new hypermarkets in 2013.

Depreciation and amortization

Depreciation and amortization amounted to €1,432 million in 2013. This represented 1.9% of sales, unchanged from 2012.

Non-recurring income and expenses, net

This classification is applied to certain material items of income and expense that are unusual in terms of their nature and frequency, such as impairment charges, restructuring costs and provision charges recorded to reflect revised estimates of risks provided for in prior periods, based on information that came to the Group's attention during the reporting year.

Non-recurring items represented net income of €144 million in 2013, comprising €566 million in income and €422 million in expenses.
The detailed breakdown is as follows:

(in € millions)	2013	2012
Net gains on sales of assets	425	234
Restructuring costs	(52)	(287)
Other non-recurring items	(101)	(374)
Non-recurring income and expenses net before asset impairments and write-offs	**272**	**(427)**
Asset impairments and write-offs	(128)	(233)
Impairments and write-offs of goodwill	*(16)*	*(18)*
Impairments and write-offs of property and equipment	*(112)*	*(215)*
Non-recurring income and expenses, net	**144**	**(660)**
Of which, non-recurring income	*566*	*286*
Of which, non recurring expense	*(422)*	*(946)*

Gains on disposals of assets in 2013 mainly concerned the sale of the Group's 25% interest in Majid Al Futtaim Hypermarkets.
A description of non-recurring income and expenses is provided in Note 11 to the consolidated financial statements.

Operating income

The Group reported operating income of €2,382 million in 2013 compared with €1,465 million the prior year, an improvement of €917 million.

Finance costs and other financial income and expenses, net

Finance costs and other financial income and expenses represented a net expense of €722 million, corresponding to 1% of sales versus 1.2% in 2012.

(In € millions)	2013	2012
Finance costs, net	(428)	(488)
Other financial income and expenses, net	(294)	(395)
Finance costs and other financial income and expenses, net	**(722)**	**(883)**

Finance costs, net decreased by €60 million following the redemption of bonds at relatively high rates of interest n 2013 and their refinancing at rates below 2%.

Income taxes

Income taxes amounted to €631 million in 2013 compared with €380 million the year before. The effective tax rate was 38%.

Net income from companies accounted for by the equity method

Net income from companies accounted for by the equity method totaled €30 million versus €72 million in 2012. The decrease primarily reflects the sale of the Group's interest in Majid Al Futtaim Hypermarkets, which was previously accounted for by the equity method.

Net income attributable to non-controlling interests

Net income attributable to non-controlling interests amounted to €101 million in 2013 compared with €83 million in the previous year.

Net income from continuing operations – Group share

The Group reported net income from continuing operations of €949 million in 2013, up from €150 million in 2012.

Net income from discontinued operations – Group share

Discontinued operations generated net income of €314 million in 2013, compared with net income of €1,109 million in 2012. The 2013 figure includes:

- The gain on the sale of the Group's operations in Indonesia.
- The Group's share of results for the period in Turkey, along with the costs incurred for the reorganization of the local partnership with Sabanci, which was completed on July 25, 2013 (see paragraph 4.2).

Net income from discontinued operations in 2012 mainly comprised:

- Gains on disposal of the Group's operations in Colombia and Malaysia and results generated in these countries and in Indonesia in 2012, for a total of €1,343 million.
- The €207 million loss on the reorganization of the partnership in Greece completed in August 2012.

2. Financial position

2.1 Shareholders' equity

At December 31, 2013, shareholders' equity stood at €8,597 million, compared with €8,047 million at the previous year-end. The €550 million increase reflected:

- Net income for the period of €1,364 million.
- Dividend payments of €499 million, of which €398 million paid to Carrefour shareholders (including €290 million paid in shares) and €101 million to minority shareholders of subsidiaries.
- The buyout of non-controlling interests in France, leading to a €112 million net reduction in total shareholders' equity.
- The removal from the balance sheet of non-controlling interests in Indonesia, leading to a €72 million net reduction in total shareholders' equity.
- The removal from the balance sheet of non-controlling interests in Turkey, leading to a €21 million net increase in total shareholders' equity.
- The €455 million negative exchange difference from translating foreign operations.

2.2 Net debt

In 2013, the Group continued to strengthen its balance sheet: Net debt declined by €203 million to €4,117 million from €4,320 million at December 31, 2012. The net debt to equity ratio stood at 47.9% at December 31, 2013, compared with 53.7% a year earlier.

A €1.4 billion bond buyback operation in June 2013 helped to lower total debt, as well as the average cost of debt.

Net debt breaks down as follows:

(in € millions)	2013	2012
Bonds	7,462	8,992
Other borrowings	1,356	1,516
Commercial paper	-	-
Finance lease liabilities	388	420
Total borrowings before derivative instruments recorded in liabilities	9,206	10,928
Derivative instruments recorded in liabilities	27	318
Total long and short term borrowings	9,233	11,246
Of which, long term borrowings	7,550	8,983
Of which, short term borrowings	1,683	2,263
Other current financial assets	359	352
Cash and cash equivalents	4,757	6,573
Total current financial assets	5,116	6,925
Net debt	**4,117**	**4,320**

Long and short-term borrowings (excluding derivatives) mature at different dates through 2021 for the longest tranche of bond debt, leading to balanced repayment obligations in the coming years as shown below:

(in € millions)	2013	2012
Due within one year	1,683	2,263
Due in 1 to 2 years	1,242	1,773
Due in 2 to 5 years	2,955	4,067
Due beyond 5 years	3,326	2,824
Total	**9,206**	**10,928**

In 2013, the Group issued €1 billion worth of 1.75% bonds due 2019.

At December 31, 2013, its liquidity position was strengthened by the availability of €4.15 billion in committed syndicated lines of credit with no drawing restrictions expiring in 2016 and 2018.

2.3 Statement of cash flows

Cash and cash equivalents totaled €4,757 million at December 31, 2013, compared with €6,573 million at December 31, 2012, a decrease of €1,816 million that primarily reflects action by the Group to pay down debt in 2013.

The reduction in net debt amounted to €203 million in 2013 versus €2,591 million in 2012, breaking down as follows:

(In € millions)	2013	2012
Cash flow from operations	3,044	3,073
Change in trade working capital requirement	76	145
Investments	(1,671)	(1,524)
Other	(359)	(405)
Free cash flow excluding non-recurring items	**1,091**	**1,289**
Non-recurring cash outflows	(1,064)	(524)
Free cash flow (including non-recurring items)	**26**	**765**
Purchases and sales of securites	485	(50)
Cash dividends/reinvested dividends	(206)	(251)
Finance costs, net	(428)	(488)
Changes in the scope of consolidation and impact of discontinued operations	752	2,419
Other	(426)	196
Decrease in net debt	**203**	**2,591**

Free cash flow stood at €26 million in 2013, compared with €765 million in 2012, after taking into account significantly higher capital expenditure (with the net spend up €147 million) and one-off cash payments totalling €1,064 million following settlement of several old tax disputes.

Purchases and sales of securities represented a net cash inflow of €485 million in 2013, compared with a net outflow of €50 million in 2012. The favorable change primarily reflects the sale of the Group's interest in Majid Al Futtaim Hypermarkets in 2013 (€526 million proceeds) on the one hand and the 2012 acquisition of Guyenne & Gascogne on the other.

Changes in the scope of consolidation and discontinued operations had a positive impact of €752 million in 2013, that was mainly due to the sale of Indonesian operations during the year and the loss of control of the subsidiary in Turkey.

This compares to a positive €2,419 million in 2012, corresponding primarily to the sale of operations in Colombia and Malaysia.

2.4 Financing and liquid resources

Corporate Treasury and Financing's liquidity management strategy consists of:

- Promoting conservative financing strategies in order to ensure that the Group has a sufficiently strong credit rating and can raise funds on the bond and commercial paper markets.
- Maintaining a presence in the debt market by conducting regular EMTN and bond issues, mainly in euros, in order to guarantee a balanced maturity profile. The Group's issuance capacity under its Euro Medium Term Notes (EMTN) program totals €12 billion.
- Using the €5 billion commercial paper program listed on NYSE Euronext Paris.
- Maintaining undrawn medium-term bank facilities that can be drawn down at any time according to the Group's needs. At December 31, 2013, the Group had three undrawn syndicated lines of credit obtained from a pool of leading banks, for a total of €4.15 billion. Group policy consists of keeping these facilities on stand-by, as backing for issues under the commercial paper program. The loan agreements for the syndicated lines of credit include the usual commitments and default clauses, including *pari passu*, negative pledge, change of control and cross-default clauses and a clause restricting sales of substantial assets. They do not, however, include any rating trigger, although the pricing grid may be adjusted up or down to reflect changes in the long-term credit rating. None of the agreements contains a material adverse change clause.

The Group considers that its liquidity position was strong at December 31, 2013 since, at that date, it had €4.15 billion in committed syndicated lines of credit with no drawing restrictions, expiring in 2016, 2017 and 2018. In addition, it had sufficient cash reserves at that date to meet its debt repayment obligations in the coming year.

The Group's debt profile is balanced, with no peak in refinancing needs across the remaining life of bond debt, which averages 4 years and 3 months.

At December 31, 2013, Carrefour was rated BBB/A-2, outlook positive by S&P, while Carrefour Banque's S&P rating at that date was BBB+/A-2, outlook stable.

2.5 Restrictions on the use of capital resources

At December 31, 2013, there were no restrictions that could materially affect the availability of the cash and cash equivalent balances of foreign subsidiaries.

2.6 Expected sources of funding

To meet its commitments, Carrefour can use its free cash flow and raise debt capital using its EMTN and commercial paper programs, as well as its credit lines.

3. Outlook for 2014

Refocused on the markets in which it holds leading positions and with a strengthened financial structure, Carrefour is staying the course in a low-growth environment, marked by currency volatility.

Mid-way through its three-year plan, Carrefour will focus in 2014 on the following operational priorities:

- **Continue action plans in all countries** aiming at continuous improvement of its offer and price image to enhance the shopping experience, notably in its three largest markets, France, Brazil and Spain

- **Accelerate multi-channel roll-out**
  - Revamp and convergence of our websites in France, gradual broadening of our offer
  - Continued development of click & collect

- **Implement new structural projects** including:
  - Revamp of the supply chain in France
  - IT rationalization

- **Enhance the attractiveness of our sites** in France, Spain and Italy by capitalizing on the creation of a shopping mall company

- **Accelerate store remodelings and relaunch multi-format expansion**
  - Investments of between €2.4bn and €2.5bn in 2014
  - Intensification of the remodeling plan
  - Continued long-term growth in emerging markets, particularly in China and Brazil

- **Maintain strict financial discipline**

Refocused on the markets in which it holds leading positions and with a strengthened financial structure, Carrefour is staying the course in a challenging environment, marked by currency volatility.
Mid-way through its three-year plan, Carrefour will focus in 2014 on the following operational priorities:

- Continue action plans in all countries aiming at continuous improvement of our offer and price image to enhance the shopping experience

- Accelerate multi-channel roll-out
  - Revamp and convergence of our websites in France, gradual broadening of our offer
  - Continued development of click & collect

- Implement new structural projects including:
  - Revamp of the supply chain in France
  - IT rationalization

- Enhance the attractiveness of our sites in France, Spain and Italy by capitalizing on the creation of a shopping mall company

- Accelerate store remodelings and relaunch multi-format expansion
    - Investments of between €2.4 billion and €2.5 billion in 2014
    - Intensification of the remodeling plan
    - Continued long-term growth in emerging markets

- Maintain strict financial discipline

4. Other information

4.1 Accounting principles

The accounting and calculation methods used to prepare the consolidated financial statements for 2013 are the same as those used for the 2012 consolidated financial statements, except as explained below:

- Amendments to IAS 19 – *Employee Benefits*. The main effects of retrospectively applying IAS 19R result from the elimination of the corridor method and the fact that it is no longer possible to defer recognition of past service costs. They consisted primarily of a reduction in shareholders' equity (€172 million at January 1, 2012 and €314 million at December 31, 2012, net of the deferred tax credit), due for the most part to an increase in provisions for pensions and length-of-service awards payable to employees on retirement (€266 million at January 1, 2012 and €475 million at December 31, 2012).

- IFRS 13 – *Fair Value Measurement*. This standard provides a single IFRS framework for measuring fair value that is applicable to all IFRSs that require or permit fair value measurements or disclosures. Its application had no material impact on the Group's published consolidated financial statements.

- Amendment to IAS 1 – *Presentation of Other Comprehensive Income*, which notably requires items that may be reclassified subsequently to profit or loss to be presented separately from items that will not be reclassified.

The other new or amended standards and interpretations applicable in the European Union as of January 1, 2013 do not have a material impact on the consolidated financial statements or do not concern the Group.

4.2 Significant events of the period

Reorganization of the partnership in Turkey

On April 30, 2013, Carrefour announced that it had reached an agreement with its Turkish partner Sabanci Holding to reorganize the governance of their joint venture, CarrefourSA.
Under the terms of the agreement, Sabanci Holding will become the majority shareholder by acquiring an additional 12% of the capital of CarrefourSA from Carrefour Group for a total consideration of TRY 141 million (approximately €60 million), while Carrefour will retain a 46.2% stake, allowing it to exercise significant influence over the joint venture.

Following the lifting of all the conditions precedent, including approval of CarrefourSA's new bylaws by Turkey's securities regulator (CMB) on July 2, 2013, the sale of one part of Carrefour's stake in CarrefourSA was completed on July 25, 2013.

In accordance with IAS 27, as the transaction will result in the loss of control of CarrefourSA, it has been treated in the consolidated financial statements as the sale of the total pre-transaction interest (58.2%) followed by the purchase of the post-transaction interest (46.2%), accounted for at fair value by the equity method.

After taking into account the €81 million in negative cumulative exchange differences recycled to the income statement, the loss of control led to the recognition of a €41 million loss in the income statement, on the line "Income/(loss) from discontinued operations".

In accordance with IFRS 5, the following reclassifications have been made in the financial statements at December 31, 2013:

- CarrefourSA's results up to the date when control was lost have been presented under "Net income from discontinued operations" with the portion attributable to non-controlling interests shown separately in accordance with IAS 27. To permit period-on-period comparisons, CarrefourSA's 2012 results have been presented on the same basis.
- In the statement of cash flows, all of the Turkish entity's cash flows for 2013 are presented on the lines "Impact of discontinued operations", with 2012 cash flows reclassified accordingly.

Reorganization of the partnership with Majid Al Futtaim

On May 22, 2013, Carrefour announced that it was selling its 25% stake in Majid Al Futtaim Hypermarkets to its partner, Majid Al Futtaim Holding, for €530 million. At the same time, the exclusive partnership agreement with the Carrefour Group is being rolled over until 2025 and extended to include new formats and new countries.

The transaction was completed on June 23, 2013, after being approved by the relevant authorities, leading to the recognition of a €426 million disposal gain in non-recurring income. Majid Al Futtaim Hypermarkets was accounted for by the equity method up to the completion date.

Bond buybacks

On June 5, 2013, Carrefour announced that it was launching a €1,350 million bond buyback program. The three issues concerned were as follows:

- €1,500 million 5.125% issue due October 2014.
- €1,000 million 5.375% issue due June 2015.
- €1,100 million 4.375% issue due November 2016.

The offer closed on June 12 and on June 18, the Group bought back €1,293.7 million worth of bonds (excluding accrued interest), as follows:

- €601 million worth of 5.125% bonds due October 2014.
- €356.1 million worth of 5.375% bonds due June 2015.
- €336.6 million worth of 4.375% bonds due November 2016.

The cost of the buyback program, reported in financial expense, amounted to €119 million.

Divestment of operations in Indonesia

At the end of November 2012, Carrefour announced the sale of its 60% stake in Carrefour Indonesia to its local partner, CT Corp, which has become Carrefour's exclusive franchisee in this country. The sale was agreed at a price of €525 million.
The transaction was completed on January 16, 2013 and the €396 million capital gain is therefore reported in the 2013 income statement, on the line "Net income from discontinued operations".

Payment of the 2012 dividend in shares

At the Annual General Meeting held on April 23, 2013, shareholders decided to set the 2012 dividend at €0.58 per share with an option to receive the dividend in shares.

The issue price of the new shares was set at €19.62 per share, representing 95% of the average of the opening prices quoted on NYSE Euronext Paris during the 20 trading days preceding the date of the Annual General Meeting, less the net amount of the dividend of €0.58 per share and rounded up to the nearest euro cent.

The option period was open from May 2 to 23, 2013. At the end of this period, shareholders owning 72.06% of Carrefour's shares had elected to reinvest their 2012 dividends.

June 7, 2013 was set as the date for:

- Settlement/delivery of the 14,769,539 new shares corresponding to reinvested dividends, leading to a total capital increase of €290 million.
- Payment of the cash dividend to shareholders who chose not to reinvest their dividends, representing a total payout of €108 million.

Creation of a company for shopping malls adjoining the Group's hypermarkets in Europe

On December 16, 2013, Carrefour announced that it had signed a memorandum of understanding with Klépierre for the purchase of 127 shopping malls.
The project will lead to the creation of a company that will include 172 shopping malls originating from:

- Firstly, the acquisition from Klepierre for €2.0 billion of 127 sites in France, Spain and Italy with gross annual rental income of around €135 million.
- Secondly, the contribution by Carrefour of 45 shopping malls in France with a value of €0.7 billion and gross annual rental income of around €45 million.

The company will be financed through €1.8 billion in equity, 42% held by Carrefour with the remainder held by institutional investors, as well as through €900 million in debt.

The parties reached a final agreement on January 24, 2014. The transaction is still subject to the approval to the relevant regulatory authorities. It will be submitted for consultation to employee representative bodies and should close in the first half of 2014.

At December 31, 2013, the properties at the 45 sites concerned were reclassified as held for sale, in accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations.*
In 2014, in application of the consolidation standards applicable as from that year (IFRS 10, IFRS 11 and IAS 28R), the new company will be accounted for by the equity method as it will be jointly controlled by Carrefour and its co-investors.

4.3 Main related party transactions

The main related party transactions are disclosed in Note 41 to the consolidated financial statements.

4.4 Subsequent events

No events have occurred since the year-end that would have a material impact on the consolidated financial statements.