Management's discussion and analysis as of December 31, 2016

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1. Consolidated sales and earnings performance

1.1 Main earnings indicators

(In € million)	2016	2015	% change	% change at constant exchange rates
Net sales	**76,645**	**76,945**	**(0.4)%**	**2.7%**
Gross margin from recurring operations	**17,985**	**18,019**	**(0.2)%**	**3.5%**
in % of net sales	*23.5%*	*23.4%*		
Sales, general and administrative expenses and amortization	(15,634)	(15,574)	0.4%	4.6%
Recurring operating income	**2,351**	**2,445**	**(3.8)%**	**(3.2)%**
Recurring operating income after net income from companies accounted for by the equity method	**2,315**	**2,489**	**(7.0)%**	**(6.7)%**
Non-recurring operating income and expenses, net	(372)	(257)	na	na
Finance costs and other financial income and expenses, net	(515)	(515)	(0.1)%	9.9%
Income tax expense	(494)	(597)	(17.3)%	(13.0)%
Net income from continuing operations - Group share	**786**	**977**	**(19.5)%**	**(28.6)%**
Net income from discontinued operations - Group share	(40)	4		
Net income - Group share	**746**	**980**		
Free cash flow (including non-recurring items)	**603**	**687**		
Net debt at December 31, 2016	**4,531**	**4,546**		

2016 was another year of growth for Carrefour. Sales rose at constant exchange rates, reflecting growth in most countries as well as the relevance of the Group's predominantly food-based multi-format model.

- sales were up 2.7% at constant exchange rates, reflecting a solid performance from the food business in all countries, robust sales growth in Brazil, and continued strong momentum in Europe (excluding France);
- recurring operating income totalled 2,351 million euros, down 3.2% at constant exchange rates, reflecting a decline in France and Asia in contrast to a rise in recurring operating income in Europe (excluding France) and in Latin America;
- non-recurring operating income and expenses represented a net expense of 372 million euros, mainly reflecting the impact of the tax on retail space in France (TaSCom) in respect of 2015 and transformation plans under way in some of the Group's host countries;
- finance costs and other financial income and expenses, net amounted to 515 million euros, which was stable compared with the 2015 figure;
- income tax expense amounted to 494 million euros, representing an improved effective tax rate of 34.6% compared with 2015;
- net income from continuing operations – Group share came in at 786 million euros, compared with 977 million euros in 2015;
- the net loss from discontinued operations totalled 40 million euros;
- taking into account all of these items, the Group ended the year with net income – Group share of 746 million euros, versus 980 million euros in 2015;
- free cash flow[1] came to 603 million euros, versus 687 million euros in 2015. Excluding supply chain investments of 249 million euros, free cash flow amounted to 852 million euros.

1 Free cash flow is defined as the difference between funds generated by operations (before net interest costs), change in working capital requirement and capital expenditure.

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 € million)	2016	2015	% change	% change at constant exchange rates
France	35,877	36,272	(1.1)%	(1.1)%
Rest of Europe	20,085	19,724	1.8%	2.3%
Latin America	14,507	14,290	1.5%	16.0%
Asia	6,176	6,659	(7.3)%	(3.6)%
Total	**76,645**	**76,945**	**(0.4)%**	**2.7%**

Carrefour reported a fifth consecutive year of sales growth in 2016, with the net figure up 2.7% at constant exchange rates. Performance was driven by Europe (excluding France) and Latin America, where sales rose by 2.3% and 16.0%, respectively.

Performance by region can be explained as follows:

- in France, sales retreated slightly year on year;
- sales in Europe (excluding France) were up compared with 2015, chiefly driven by gains in Spain, Romania and Poland;
- in Latin America, sales continued to grow rapidly, rising by 16.0% at constant exchange rates. However, due to the extremely negative currency effect, the increase at current exchange rates was just 1.5%;
- in Asia, sales were down 3.6% at constant exchange rates.

Net sales by region – contribution to the consolidated total

In %	2016 [(1)]	2015
France	45.4%	47.1%
Rest of Europe	25.5%	25.6%
Latin America	21.0%	18.6%
Asia	8.1%	8.7%
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% in 2016, versus 27% in 2015.

Recurring operating income by region

(In € million)	2016	2015	% change	% change at constant exchange rates
France	1,031	1,191	(13.4)%	(13.4)%
Rest of Europe	712	567	25.5%	25.7%
Latin America	711	705	0.9%	3.7%
Asia	(58)	13	(558.3)%	(600.9)%
Global functions	(45)	(31)	45.7%	45.3%
Total	**2,351**	**2,445**	**(3.8)%**	**(3.2)%**

Despite increases in Europe (excluding France) and Latin America, recurring operating income fell by 3.2% at constant exchange rates, to 2,351 million euros, equivalent to 3.1% of sales.

The decrease reflected:

- sales growth of 2.7%;
- a stable gross margin from recurring operations, representing 23.5% of sales versus 23.4% in 2015;
- changes in sales, general and administrative expenses and depreciation and amortization, which represented 20.4% of net sales compared with 20.2% in 2015.

In France, 2016 recurring operating income totalled 1,031 million euros (2.9% of sales). In a challenging competitive environment, the Group continued to roll out its multi-format and omni-channel strategy, completing the conversion of Dia stores and the integration of Rue du Commerce.

In Europe (excluding France), recurring operating income rose 25.7% to 712 million euros at constant exchange rates. Operating margin[2] advanced by 70 points to 3.5% of sales. This sound performance was driven to a large extent by the continued recovery in Spain as well as improved profitability in Italy and Poland on the back of several years of constant innovation in these two countries.

In Latin America, recurring operating income came in at 711 million euros (up 3.7% at constant exchange rates) and represented 4.9% of sales (in line with 2015). Brazil turned in a strong performance, which included a sharp increase in profitability, highlighting the solidity of Carrefour's multi-format model in the country. Tough macroeconomic conditions in Argentina, marked by soaring inflation, continued to put pressure on the country's profitability.

In Asia, the recurring operating loss came to 58 million euros. As anticipated, strong growth in recurring operating income in Taiwan failed to offset losses in China. However, the development of our model in the country began to have a positive impact on sales towards the end of the second half.

Depreciation and amortization

Depreciation and amortisation amounted to 1,487 million euros in 2016. At 1.9% of sales, the ratio was stable compared with 2015.

[2] *Ratio of recurring operating income to sales.*

Net loss of equity-accounted companies

The net loss of equity-accounted companies totalled 36 million euros, versus net income of 44 million euros in 2015. This was mainly a result of non-recurring losses incurred by our partner in Turkey.

Non-recurring income and expenses, net

Non-recurring income and expenses correspond to certain material items 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 a net expense of 372 million euros in 2016.

The detailed breakdown is as follows:

(In € million)	**2016**	**2015**
Net gains on sales of assets	39	64
Restructuring costs	(154)	(237)
Other non-recurring items	(127)	31
Non-recurring income and expenses net before asset impairments and write-offs	**(242)**	**(142)**
Asset impairments and write-offs	(130)	(115)
Impairments and write-offs of goodwill	*(5)*	*(2)*
Impairments and write-offs of tangible and intangible assets	*(125)*	*(113)*
Non-recurring income and expenses, net	**(372)**	**(257)**

In 2016, gains on disposals of assets primarily related to sales of various individually non-material assets. In 2015, gains on disposals of assets mainly concerned assets sold to an associate, Carmila.

Restructuring costs concerned plans to streamline operating structures in several of the Group's countries. As in 2015, the expense recognised in 2016 notably includes the impact of integrating the Dia France stores acquired in late 2014, as well as costs relating to the overhaul of supply chains in France.

In 2016, impairment losses of 85 million euros (2015: 41 million euros) were recognised against property and equipment to take account of the difficulties experienced by certain stores, particularly in China. In addition, 33 million euros' worth of assets were written off during the year (2015: 61 million euros).

Other non-recurring income and expenses mainly comprise a 106 million-euro expense relating to the tax on retail space in France (TaSCom), which resulted from a change in the accounting treatment of said tax.

A description of non-recurring income and expenses is provided in Note 5.3 to the Consolidated Financial Statements.

Operating income

The Group ended the year with operating income of 1,943 million euros, versus 2,232 million euros in 2015.

Finance costs and other financial income and expenses, net

Finance costs and other financial income and expenses represented a net expense of 515 million euros, representing 0.7% of sales as in 2015.

(In € million)	**2016**	**2015**
Finance costs, net	(377)	(347)
Other financial income and expenses, net	(138)	(168)
Finance costs and other financial income and expenses, net	**(515)**	**(515)**

Finance costs, net rose by 29 million euros to 377 million euros. The increase was chiefly attributable to the rise in interest costs on borrowings in Latin America, offset by a reduction in the average interest rate on the Group's bond debt following the retirement of existing issues and their replacement with a lower-rate issue (750 million euros at 0.75% in April 2016).

Other financial income and expenses represented a net expense of 138 million euros, compared with a net expense of 168 million euros in 2015.

Income tax expense

Income taxes amounted to 494 million euros in 2016, compared with 597 million euros the year before. The effective tax rate was 34.6% (34.8% in 2015).

Net income attributable to non-controlling interests

Net income attributable to non-controlling interests came to 148 million euros, versus 143 million euros in 2015.

Net income from continuing operations – Group share

The Group reported net income from continuing operations of 786 million euros in 2016, compared with 977 million euros in 2015.

Net loss from discontinued operations – Group share

In 2016, the net loss from discontinued operations amounted to 40 million euros, corresponding mainly to the loss generated by Dia stores sold during the year or in the process of being sold at the year-end, which were accounted for in accordance with IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations.*

In 2015, net income from discontinued operations amounted to 4 million euros, corresponding mainly to the final settlement of litigation dating back to prior years, less the loss generated by Dia stores sold during the year or in the process of being sold at the year-end.

2.1 Shareholders' equity

At December 31, 2016, shareholders' equity stood at 12,008 million euros, compared with 10,672 million euros at the previous year-end.

The 1,336 million euro increase reflected:
- net income for the year of 894 million euros;
- other comprehensive income of 258 million euros;
- changes in capital and premiums for 443 million euros corresponding mainly to the portion of Cargo Property Holding's share capital subscribed by third-party investors (including uncalled capital);
- dividends paid in an amount of 247 million euros, of which 121 million euros paid to Carrefour shareholders and 126 million euros to non-controlling shareholders of subsidiaries.

2.2 Net debt

Net debt was reduced by 15 million euros to 4,531 million euros at December 31, 2016 from 4,546 million euros at December 31, 2015.

Net debt breaks down as follows:

(In € million)	**2016**	**2015**
Bonds	6,962	6,884
Other borrowings	690	345
Commercial paper	0	0
Finance lease liabilities	322	351
Total borrowings before derivative instruments recorded in liabilities	**7,974**	**7,580**
Derivative instruments recorded in liabilities	101	49
Total long and short term borrowings (1)	**8,075**	**7,629**
Of which, long term borrowings	*6,200*	*6,662*
Of which, short term borrowings	*1,875*	*966*
Other current financial assets	239	358
Cash and cash equivalents	3,305	2,724
Total current financial assets (2)	**3,544**	**3,083**
Net debt = (1) - (2)	**4,531**	**4,546**

Long- and short-term borrowings (excluding derivatives) mature at different dates, through 2025 for the longest tranche of bond debt, leading to balanced repayment obligations in the coming years, as shown below:

(In € million)	**2016**	**2015**
Due within one year	1,774	921
Due in 1 to 2 years	333	1,306
Due in 2 to 5 years	3,221	2,447
Due beyond 5 years	2,646	2,905
Total	**7,974**	**7,580**

At December 31, 2016, the Group had access to 3.9 billion euros in committed syndicated lines of credit with no drawing restrictions expiring in 2019 and 2022, underpinning its liquidity position.

Cash and cash equivalents totalled 3,305 million euros at December 31, 2016, compared with 2,724 million euros at December 31, 2015, representing an increase of 581 million euros.

2.3 Cash flows for the year and cash and cash equivalents at December 31, 2016

Net debt was reduced by 15 million euros over the year, after falling by 408 million euros in 2015. The decrease is analysed in the simplified statement of cash flows presented below:

(in € million)	**2016**	**2015**
Cash flow from operations	2,964	2,733
Change in trade working capital requirement	614	224
Change in other receivables and payables	(160)	52
Change in consumer credit granted by the financial services companies	(103)	(195)
Investments	(2,749)	(2,378)
Change in amounts due to suppliers of fixed assets	(70)	137
Other	107	113
Free cash flow	**603**	**687**
Acquisitions of subsidiaries and investments in associates	(187)	(50)
Purchases and disposals without change in control	(40)	208
Cash dividends/reinvested dividends	48	(474)
Finance costs, net	(377)	(347)
Other	(33)	385
Decrease / (Increase) in net debt	**15**	**408**

Free cash flow stood at 603 million euros in 2016, compared with 687 million euros in 2015, after taking into account the increase in cash flow from operating activities in an amount of 231 million euros and the change in trade working capital requirement in an amount of 390 million euros.

Cash flows used in operating activities primarily reflected the ongoing asset renovation programme and capital expenditure to modernise and develop the store network. The amount included the ongoing asset renovation programme and capital expenditure to modernise and develop the store network, as well as initial investments made by Cargo Property, the new real estate subsidiary dedicated to logistics.

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 through regular debt issuance programmes, mainly in euros, in order to create a balanced maturity profile. The Group's issuance capacity under its Euro Medium Term Notes (EMTN) programme totals 12 billion euros. Since 2007, the loan agreements for the EMTN programme include a soft change of control clause that would be triggered in the event that a change of control led to Carrefour losing its investment grade rating. In this case, the notes would not become immediately repayable but the interest rate would increase;
- using the 5 billion-euro commercial paper programme on Euronext Paris, described in a prospectus filed with the Banque de France;
- maintaining undrawn medium-term bank facilities that can be drawn down at any time according to the Group's needs. At December 31, 2016, the Group had two undrawn syndicated lines of credit obtained from a pool of leading banks, for a total of 3.9 billion euros. Group policy consists of keeping these facilities on stand-by to support the commercial paper programme. 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 substantial sales of 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 is robust, as it has sufficient cash reserves 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 four years and one month.

At December 31, 2016, Carrefour was rated BBB+/A-2 with a stable outlook by S&P.

2.5 Restrictions on the use of capital resources

There are no material restrictions on the Group's ability to recover or use the assets and settle the liabilities of foreign operations, except for those resulting from local regulations in its host countries. The local supervisory authorities may require banking subsidiaries to comply with certain capital, liquidity and other ratios and to limit their exposure to other Group parties.

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 programmes, as well as its credit lines.

3. Outlook for 2017

Driven by 50 years of expertise, unrivalled knowledge of the fresh and organic produce segment, and its command of the entire production chain, **Carrefour is asserting itself as the world's leading food retailer**.

As the world's most multi-format retailer, and thanks to a portfolio of countries handpicked for their market momentum, Carrefour continues to invest in expansion in order to be closer to its customers. In 2017, new store openings in all formats, particularly local convenience stores, will continue at a rapid pace.

In all countries, Carrefour will continue to develop its **e-commerce business, designed as a standalone format**, enabling the Group to both increase sales and boost its non-food and services offering.

The omni-channel approach, based on a better understanding of our customers as a result of data analysis, will enable Carrefour to increase the average basket along with store traffic.

Carrefour is fostering a culture of innovation in its headquarters and stores by continuously innovating in concepts, products, services and formats.

Thanks to **improved operating efficiency and strict financial discipline**, Carrefour is building a model that is resolutely oriented towards creating value.

4.1 Accounting principles

The accounting and calculation methods used to prepare the 2016 consolidated financial statements are the same as those used for the 2015 consolidated financial statements, except for the following standards, amendments and interpretations, which were applicable as of January 1, 2016:

- IFRS Annual Improvements 2010-2012 Cycle;
- Amendments to IAS 19 – *Defined Benefit Plans: Employee Contributions*;
- Amendments to IFRS 11 – *Accounting for Acquisitions of Interests in Joint Operations*;
- Amendments to IAS 16 and IAS 38 – *Clarification of Acceptable Methods of Depreciation and Amortisation*;
- IFRS Annual Improvements 2012-2014 Cycle;
- Amendments to IAS 1 – *Disclosure Initiative*.

Application of these amendments had no material impact on the Group's published consolidated financial statements.

The Group decided not to early adopt the following standards, amendments and interpretations that were not applicable as of January 1, 2016:

Adopted for use in the European Union:

- IFRS 9 – *Financial Instruments*, applicable in annual periods beginning on or after January 1, 2018;
- IFRS 15 – *Revenues from Contracts with Customers* (applicable in annual periods beginning on or after January 1, 2018).

Not yet adopted for use in the European Union:

- IFRS 16 – *Leases* (applicable according to the IASB in annual periods beginning on or after January 1, 2019);
- Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses* (applicable according to the IASB in annual periods beginning on or after January 1, 2017);
- Amendments to IAS 7 – *Disclosure Initiative* (applicable according to the IASB in annual periods beginning on or after January 1, 2017);
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (effective date postponed by the IASB indefinitely);
- Amendments to IFRS 15 – *Clarifications to IFRS 15 Revenue from Contracts with Customers* (applicable according to the IASB in annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 2 – *Classification and Measurement of Share-Based Payment Transactions* (applicable according to the IASB in annual periods beginning on or after January 1, 2018);
- Amendments to IFRS 4 – *Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts* (applicable according to the IASB in annual periods beginning on or after January 1, 2018);
- Amendments to IAS 40 – *Transfers of Investment Property* (applicable according to the IASB in annual periods beginning on or after January 1, 2018);
- IFRIC 22 – *Foreign Currency Transactions and Advance Consideration* (applicable according to the IASB in annual periods beginning on or after January 1, 2018);
- IFRS Annual Improvements 2014-2016 Cycle.

The possible impact on the consolidated financial statements of applying these new and amended standards is currently being assessed.

Details of the new and amended standards and interpretations, including those not yet adopted for use in the European Union, are provided in Note 1.2 to the Consolidated Financial Statements "Changes of method".

4.2 Significant events of the period

Securing the Group's long-term financing

On April 19, 2016, the Group carried out a new 750-million euro 8-year 0.75% bond issue due June 2024. The issue's settlement date was April 26, 2016.
The issue consolidated the Group's long-term financing, extended the average maturity of its bond debt (from 4.06 years to 4.25 years at April 19, 2016) and further reduced its borrowing costs.

2015 dividend reinvestment option

At the Annual General Meeting held on May 17, 2016, the shareholders decided to set the 2015 dividend at 0.70 euros per share with a dividend reinvestment option.
The issue price of the shares to be issued in exchange for reinvested dividends was set at 21.86 euros per share, representing 90% of the average of the opening prices quoted on Euronext Paris during the 20 trading days preceding the date of the Annual General Meeting, less the net amount of the dividend of 0.70 euros per share and rounded up to the nearest euro cent.
The option period was open from May 23 to June 10, 2016. At the end of this period, shareholders owning 76.34% of Carrefour's shares had elected to reinvest their 2015 dividends.
June 21, 2016 was set as the date for:

- settlement/delivery of the 17,764,360 new shares corresponding to reinvested dividends, representing a total capital increase of 388 million euros (the aggregate par value of the new shares for 44 million euros and premiums for 344 million euros);
- payment of the cash dividend to shareholders who chose not to reinvest their dividends, representing a total payout of 121 million euros.

Acquisition of Rue du Commerce

On August 24, 2015, Carrefour announced that it was in exclusive negotiations with Altarea Cogedim for the acquisition of 100% of the shares of Rue du Commerce, a major player in the non-food e-commerce market in France.
The acquisition was completed in January 2016 after employee representatives at Rue du Commerce had been consulted and the necessary approvals had been obtained from the competition authorities.
It represents another step in the roll-out of Carrefour's omni-channel strategy in France for the benefit of its customers both in stores and on-line.

Acquisition of Billa Romania

On December 22, 2015, Carrefour announced that an agreement had been signed with the Rewe Group for the acquisition of Billa Romania, which operates a network of 85 supermarkets spread across the whole of Romania, representing a total sales area of 83,000 square meters.
The acquisition was completed on June 30, 2016, following approval from the competition authorities.
Through this acquisition, Carrefour will become the leading supermarket operator in Romania, strengthening its multi-format offer to better serve its customers.

4.3 Main related-party transactions

The main related-party transactions are disclosed in Note 7.3 to the Consolidated Financial Statements.

4.4 Subsequent events

In December 2016, the Group exercised its option to extend its 2,500 million-euro credit facility by one year. The extension was effective in January 2017 and the facility will now mature in January 2022.
The operation has contributed to the ongoing strategy to secure the Group's long-term financing sources by maintaining the average maturity of its facilities (from 4.4 as of December 31, 2015 to 4.1 years as of December 31, 2016).

On March 2, 2017, Carmila and Cardety, two property companies over which the Group has significant influence, announced a draft merger agreement under which Carmila will be absorbed by Cardety, whose shares are listed on Euronext Paris (compartment C). Post completion of the merger, Carrefour would own 42.4% of the new merged entity, which is to be named Carmila, while the other shareholders of Carmila and Cardety would own 55.3% and 2.3% respectively.
The merger proposal will be submitted to the relevant employee representative bodies for information and consultation purposes. Following completion of this information and consultation process, and subject to the signing of the definitive agreements and to certain regulatory approvals, the merger will be submitted for the approval of Carmila and Cardety's respective shareholders at General Meetings to be held in 2017.
As part of its development plan, the merged entity may, subject to market conditions, carry out a capital increase in an amount of 500-600 million euros, which would involve issuing shares on the market in 2017.

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