Supplemental Listing Document

If you are in any doubt as to any aspect of this document, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, accountant or other professional adviser.

Application has been made to the Singapore Exchange Securities Trading Limited (the "**SGX-ST**") for permission to deal in and for quotation of the Certificates (as defined below). The SGX-ST takes no responsibility for the contents of this document, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. Admission to the Official List of the SGX-ST is not to be taken as an indication of the merits of SG Issuer, Société Générale, the Certificates, or the Company (as defined below).

10,000,000 European Style Cash Settled Short Certificates

relating to the Class A ordinary shares of Baidu, Inc.

with a Daily Leverage of -5x

issued by

SG Issuer

(Incorporated in Luxembourg with limited liability)

unconditionally and irrevocably guaranteed by

Société Générale

Issue Price: S$1.20 per Certificate

This document is published for the purpose of obtaining a listing of all the above certificates (the "**Certificates**") to be issued by SG Issuer (the "**Issuer**") unconditionally and irrevocably guaranteed by Société Générale (the "**Guarantor**"), and is supplemental to and should be read in conjunction with a base listing document dated 19 June 2020 including such further base listing documents as may be issued from time to time (the "**Base Listing Document**") for the purpose of giving information with regard to the Issuer, the Guarantor and the Certificates. Information relating to the Company (as defined below) is contained in this document.

This document does not constitute or form part of any offer, or invitation, to subscribe for or to sell, or solicitation of any offer to subscribe for or to purchase, Certificates or other securities of the Issuer, nor is it calculated to invite, nor does it permit the making of, offers by the public to subscribe for or purchase for cash or other consideration the Certificates or other securities of the Issuer.

Restrictions have been imposed on offers and sales of the Certificates and on distributions of documents relating thereto in Singapore, Hong Kong, the European Economic Area, the United Kingdom and the United States (see "Placing and Sale" contained herein).

The Certificates are complex products. You should exercise caution in relation to them. Investors are warned that the price of the Certificates may fall in value as rapidly as it may rise and holders may sustain a total loss of their investment. The price of the Certificates also depends on the supply and demand for the Certificates in the market and the price at which the Certificates is trading at any time may differ from the underlying valuation of the Certificates because of market inefficiencies. It is not possible to predict the secondary market for the Certificates. Although the Issuer, the Guarantor and/or any of their affiliates may from time to time purchase the Certificates or sell additional Certificates on the market, the Issuer, the Guarantor and/or any of their affiliates are not obliged to do so. Investors should also note that there are leveraged risks because the Certificates integrate an inverse leverage mechanism and the Certificates will amplify the movements in the increase, and in the decrease, of the value of the Underlying Stock (as defined below) and if the investment results in a loss, any such loss will be increased by the leverage factor of the Certificates. As such, investors could lose more than they would if they had invested directly in the Underlying Stock.

The Certificates are classified as capital markets products other than prescribed capital markets products[1] and Specified Investment Products (SIPs)[2], and may only be sold to retail investors with enhanced safeguards, including an assessment of such investors' investment knowledge or experience.

The Certificates constitute general unsecured obligations of the Issuer and of no other person, and the guarantee dated 19 June 2020 (the "**Guarantee**") and entered into by the Guarantor constitutes direct unconditional unsecured senior preferred obligations of the Guarantor and of no other person, and if you purchase the Certificates, you are relying upon the creditworthiness of the Issuer and the Guarantor and have no rights under the Certificates against any other person.

Application has been made to the SGX-ST for permission to deal in and for quotation of the Certificates and the SGX-ST has agreed in principle to grant permission to deal in and for quotation of the Certificates. It is expected that dealings in the Certificates will commence on or about 14 May 2021.

As of the date hereof, the Guarantor's long term credit rating by S&P Global Ratings is A, and by Moody's Investors Service, Inc. is A1.

The Issuer is regulated by the Luxembourg Commission de Surveillance du Secteur Financier on a consolidated basis and the Guarantor is regulated by, *inter alia*, the Autorité des Marchés Financiers, the Autorité de Contrôle Prudentiel et de Résolution and the European Central Bank.

12 May 2021

[1] As defined in the Securities and Futures (Capital Markets Products) Regulations 2018.
[2] As defined in the MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products.

Subject as set out below, the Issuer and the Guarantor accept full responsibility for the accuracy of the information contained in this document and the Base Listing Document in relation to themselves and the Certificates. To the best of the knowledge and belief of the Issuer and the Guarantor (each of which has taken all reasonable care to ensure that such is the case), the information contained in this document and the Base Listing Document for which they accept responsibility (subject as set out below in respect of the information contained herein with regard to the Company) is in accordance with the facts and does not omit anything likely to affect the import of such information. The information with regard to the Company as set out herein is extracted from publicly available information. The Issuer and the Guarantor accept responsibility only for the accurate reproduction of such information. No further or other responsibility or liability in respect of such information is accepted by the Issuer and the Guarantor.

No person has been authorised to give any information or to make any representation other than those contained in this document in connection with the offering of the Certificates, and, if given or made, such information or representations must not be relied upon as having been authorised by the Issuer or the Guarantor. Neither the delivery of this document nor any sale made hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Issuer, the Guarantor or their respective subsidiaries and associates since the date hereof.

This document does not constitute an offer or invitation by or on behalf of the Issuer or the Guarantor to purchase or subscribe for any of the Certificates. The distribution of this document and the offering of the Certificates may, in certain jurisdictions, be restricted by law. The Issuer and the Guarantor require persons into whose possession this document comes to inform themselves of and observe all such restrictions. In particular, the Certificates and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended or any state securities law, and trading in the Certificates has not been approved by the United States Commodity Futures Trading Commission (the "**CFTC**") under the United States Commodity Exchange Act of 1936, as amended and the Issuer will not be registered as an investment company under the United States Investment Company Act of 1940, as amended, and the rules and regulations thereunder. None of the Securities and Exchange Commission, any state securities commission or regulatory authority or any other United States, French or other regulatory authority has approved or disapproved of the Certificates or the Guarantee or passed upon the accuracy or adequacy of this document. Accordingly, Certificates, or interests therein, may not at any time be offered, sold, resold, traded, pledged, exercised, redeemed, transferred or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, U.S. persons, nor may any U.S. person at any time trade, own, hold or maintain a position in the Certificates or any interests therein. In addition, in the absence of relief from the CFTC, offers, sales, re-sales, trades, pledges, exercises, redemptions, transfers or deliveries of Certificates, or interests therein, directly or indirectly, in the United States or to, or for the account or benefit of, U.S. persons, may constitute a violation of United States law governing commodities trading and commodity pools. Consequently, any offer, sale, resale, trade, pledge, exercise, redemption, transfer or delivery made, directly or indirectly, within the United States or to, or for the account or benefit of, a U.S. person will not be recognised. A further description of certain restrictions on offering and sale of the Certificates and distribution of this document is given in the section headed "Placing and Sale" contained herein.

The SGX-ST has made no assessment of, nor taken any responsibility for, the financial soundness of the Issuer or the Guarantor or the merits of investing in the Certificates, nor have they verified the accuracy or the truthfulness of statements made or opinions expressed in this document.

The Issuer, the Guarantor and/or any of their affiliates may repurchase Certificates at any time on or after the date of issue and any Certificates so repurchased may be offered from time to time in one or more transactions in the over-the-counter market or otherwise at prevailing market prices or in negotiated transactions, at the discretion of the Issuer, the Guarantor and/or any of their affiliates. Investors should not therefore make any assumption as to the number of Certificates in issue at any time.

References in this document to the "**Conditions**" shall mean references to the Terms and Conditions of the European Style Cash Settled Long/Short Certificates on Single Equities contained in the Base Listing Document. Terms not defined herein shall have the meanings ascribed thereto in the Conditions.

Table of Contents

RISK FACTORS

The following are risk factors relating to the Certificates:

(a) investment in Certificates involves substantial risks including market risk, liquidity risk, and the risk that the Issuer and/or the Guarantor will be unable to satisfy its/their obligations under the Certificates. Investors should ensure that they understand the nature of all these risks before making a decision to invest in the Certificates. You should consider carefully whether Certificates are suitable for you in light of your experience, objectives, financial position and other relevant circumstances. Certificates are not suitable for inexperienced investors;

(b) the Certificates constitute general unsecured obligations of the Issuer and of no other person, and the Guarantee constitutes direct unconditional unsecured senior preferred obligations of the Guarantor and of no other person. In particular, it should be noted that the Issuer issues a large number of financial instruments, including Certificates, on a global basis and, at any given time, the financial instruments outstanding may be substantial. If you purchase the Certificates, you are relying upon the creditworthiness of the Issuer and the Guarantor and have no rights under the Certificates against any other person;

(c) since the Certificates relate to the price of the Underlying Stock, certain events relating to the Underlying Stock may cause adverse movements in the value and the price of the Underlying Stock, as a result of which, the Certificate Holders (as defined in the Conditions of the Certificates) may, in extreme circumstances, sustain a significant loss of their investment if the price of the Underlying Stock has risen sharply;

(d) the Company is controlled through weighted voting rights. Certain individuals who own shares of a class which is being given more votes per share may have the ability to determine the outcome of most matters. Depending on the action taken by the Company, the market price of the Certificates could be adversely affected;

(e) due to their nature, the Certificates can be volatile instruments and may be subject to considerable fluctuations in value. The price of the Certificates may fall in value as rapidly as it may rise due to, including but not limited to, variations in the frequency and magnitude of the changes in the price of the Underlying Stock, the time remaining to expiry, the currency exchange rates and the creditworthiness of the Issuer and the Guarantor;

(f) if, whilst any of the Certificates remain unexercised, trading in the Underlying Stock is suspended or halted on the relevant stock exchange, trading in the Certificates may be suspended for a similar period;

(g) as indicated in the Conditions of the Certificates and herein, a Certificate Holder must tender a specified number of Certificates at any one time in order to exercise. Thus, Certificate Holders with fewer than the specified minimum number of Certificates in a particular series will either have to sell their Certificates or purchase additional Certificates, incurring transactions costs in each case, in order to realise their investment;

(h) investors should note that in the event of there being a Market Disruption Event (as defined in the Conditions) determination or payment of the Cash Settlement Amount (as defined in the Conditions) may be delayed, all as more fully described in the Conditions;

(i) certain events relating to the Underlying Stock require or, as the case may be, permit the Issuer to make certain adjustments or amendments to the Conditions. Investors may refer to the Conditions 4 and 6 on pages 30 to 34 and the examples and illustrations of adjustments set out in the "Information relating to the European Style Cash Settled Short Certificates on Single Equities" section of this document for more information;

(j) the Certificates are only exercisable on the Expiry Date and may not be exercised by Certificate Holders prior to such Expiry Date. Accordingly, if on the Expiry Date the Cash Settlement Amount is zero, a Certificate Holder will lose the value of his investment;

(k) the total return on an investment in any Certificate may be affected by the Hedging Fee Factor (as defined below), Management Fee (as defined below) and Gap Premium (as defined below);

(l) investors holding their position overnight should note that they would be required to bear the annualised cost which consists of the Management Fee and Gap Premium, which are calculated daily and applied to the value of the Certificates, as well as certain costs embedded within the Leverage Inverse Strategy (as described below) including the Stock Borrowing Cost (as defined below) and Rebalancing Cost (as defined below);

(m) investors should note that there may be an exchange rate risk relating to the Certificates where the Cash Settlement Amount is converted from a foreign currency into Singapore dollars.

Exchange rates between currencies are determined by forces of supply and demand in the foreign exchange markets. These forces are, in turn, affected by factors such as international balances of payments and other economic and financial conditions, government intervention in currency markets and currency trading speculation. Fluctuations in foreign exchange rates, foreign political and economic developments, and the imposition of exchange controls or other foreign governmental laws or restrictions applicable to such investments may affect the foreign currency market price and the exchange rate-adjusted equivalent price of the Certificates. Fluctuations in the exchange rate of any one currency may be offset by fluctuations in the exchange rate of other relevant currencies;

(n) investors should note that there are leveraged risks because the Certificates integrate an inverse leverage mechanism and the Certificates will amplify the movements in the increase, and in the decrease, of the value of the Underlying Stock and if the investment results in a loss, any such loss will be increased by the leverage factor of the Certificates. As such, investors could lose more than they would if they had invested directly in the Underlying Stock;

(o) when held for longer than a day, the performance of the Certificates could be more or less than the leverage factor that is embedded within the Certificates. The performance of the Certificates each day is locked in, and any subsequent returns are based on what was achieved the previous day. This process, referred to as compounding, may lead to a performance difference from 5 times the inverse performance of the Underlying Stock over a period longer than one day. This difference may be amplified in a volatile market with a sideway trend, where market movements are not clear in direction, whereby investors may sustain substantial losses;

(p) the Air Bag Mechanism (as defined below) is triggered only when the Underlying Stock is calculated or traded, which may not be during the trading hours of the Relevant Stock Exchange for the Certificates (as defined below);

(q) investors should note that the Air Bag Mechanism reduces the impact on the Leverage Inverse Strategy if the Underlying Stock rises further, but will also maintain a reduced exposure to the Underlying Stock in the event the Underlying Stock starts to fall after the Air Bag Mechanism is triggered, thereby reducing its ability to recoup losses;

(r) there is no assurance that the Air Bag Mechanism will prevent investors from losing the entire value of their investment, in the event of (i) an overnight increase in the Underlying Stock, where there is a 20% or greater gap between the previous day closing price and the opening price of the Underlying Stock the following day, as the Air Bag Mechanism will only be triggered when market opens the following day or (ii) a sharp intraday increase in the price of the Underlying Stock of 20% or greater within the 15 minutes Observation Period compared to the reference price, being: (1) if air bag has not been previously triggered on the same day, the previous closing price of the Underlying Stock, or (2) if one or more air bag have been previously triggered on the same day, the latest New Observed Price. Investors may refer to pages 49 to 50 of this document for more information;

(s) certain events may, pursuant to the terms and conditions of the Certificates, trigger (i) the implementation of methods of adjustment or (ii) the early termination of the Certificates. The Issuer will give the investors reasonable notice of any early termination. If the Issuer terminates the Certificates early, then the Issuer will, if and to the extent permitted by applicable law, pay an amount to each Certificate Holder in respect of each Certificate held by such holder equal to the fair market value of the Certificate less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. The performance of this commitment shall depend on (i) general market conditions and (ii) the liquidity conditions of the underlying instrument(s) and, as the case may be, of any other hedging transactions. Investors should note that the amount repaid by the Issuer may be less than the amount initially invested. Investors may refer to the Condition 13 on pages 36 to 38 of this document for more information;

(t) there is no assurance that an active trading market for the Certificates will sustain throughout the life of the Certificates, or if it does sustain, it may be due to market making on the part of the Designated Market Maker. The Issuer acting through its Designated Market Maker may be the only market participant buying and selling the Certificates. Therefore, the secondary market for the Certificates may be limited and you may not be able to realise the value of the Certificates. Do note that the bid-ask spread increases with illiquidity;

(u) in the ordinary course of their business, including without limitation, in connection with the Issuer or its appointed designated market maker's market making activities, the Issuer, the Guarantor and any of their respective subsidiaries and affiliates may effect transactions for their own account or for the account of their customers and hold long or short positions in the Underlying Stock. In addition, in connection with the offering of any Certificates, the Issuer, the Guarantor and any of their respective subsidiaries and affiliates may enter into one or more hedging transactions with respect to the Underlying Stock. In connection with such hedging or market-making activities or with respect to proprietary or other trading activities by the Issuer, the Guarantor and any of their respective subsidiaries and affiliates, the Issuer, the Guarantor and any of their respective subsidiaries and affiliates may enter into transactions in the Underlying Stock which may affect the market price, liquidity or value of the Certificates and which may affect the interests of Certificate Holders;

(v) various potential and actual conflicts of interest may arise from the overall activities of the Issuer, the Guarantor and/or any of their subsidiaries and affiliates.

The Issuer, the Guarantor and any of their subsidiaries and affiliates are diversified financial institutions with relationships in countries around the world. These entities engage in a wide range of commercial and investment banking, brokerage, funds management, hedging transactions and investment and other activities for their own account or the account of others. In addition, the Issuer, the Guarantor and any of their subsidiaries and affiliates, in connection with their other business activities, may possess or acquire material information about the Underlying Stock. Such activities and information may involve or otherwise affect issuers of the Underlying Stock in a manner that may cause consequences adverse to the Certificate Holders or otherwise create conflicts of interests in connection with the issue of Certificates by the Issuer. Such actions and conflicts may include, without limitation, the exercise of voting power, the purchase and sale of securities, financial advisory relationships and exercise of creditor rights. The Issuer, the Guarantor and any of their subsidiaries and affiliates have no obligation to disclose such information about the Underlying Stock or such activities. The Issuer, the Guarantor and any of their subsidiaries and affiliates and their officers and directors may engage in any such activities without regard to the issue of Certificates by the Issuer or the effect that such activities may directly or indirectly have on any Certificate;

(w) legal considerations which may restrict the possibility of certain investments:

Some investors' investment activities are subject to specific laws and regulations or laws and regulations currently being considered by various authorities. All potential investors must consult their own legal advisers to check whether and to what extent (i) they can legally purchase the Certificates (ii) the Certificates can be used as collateral security for various forms of borrowing (iii) if other restrictions apply to the purchase of Certificates or their use as collateral security. Financial institutions must consult their legal advisers or regulators to determine the appropriate treatment of the Certificates under any applicable risk-based capital or similar rules;

(x) the credit rating of the Guarantor is an assessment of its ability to pay obligations, including those on the Certificates. Consequently, actual or anticipated declines in the credit rating of the Guarantor may affect the market value of the Certificates;

(y) the Certificates are linked to the Underlying Stock and subject to the risk that the price of the Underlying Stock may rise. The following is a list of some of the significant risks associated with the Underlying Stock:

– Historical performance of the Underlying Stock does not give an indication of future performance of the Underlying Stock. It is impossible to predict whether the price of the Underlying Stock will fall or rise over the term of the Certificates; and

– The price of the Underlying Stock may be affected by the economic, financial and political events in one or more jurisdictions, including the stock exchange(s) or quotation system(s) on which the Underlying Stock may be traded;

(z) the value of the Certificates depends on the Leverage Inverse Strategy performance built in the Certificate. The Calculation Agent will make the Leverage Inverse Strategy last closing level and a calculation tool available to the investors on a website;

(aa) two or more risk factors may simultaneously have an effect on the value of a Certificate such that the effect of any individual risk factor may not be predicted. No assurance can be given as to the effect any combination of risk factors may have on the value of a Certificate;

(bb) as the Certificates are represented by a global warrant certificate which will be deposited with The Central Depository (Pte) Limited ("**CDP**"):

(i) investors should note that no definitive certificate will be issued in relation to the Certificates;

(ii) there will be no register of Certificate Holders and each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Certificates by way of interest (to the extent of such number) in the global warrant certificate in respect of those Certificates represented thereby shall be treated as the holder of such number of Certificates;

(iii) investors will need to rely on any statements received from their brokers/custodians as evidence of their interest in the Certificates; and

(iv) notices to such Certificate Holders will be published on the web-site of the SGX-ST. Investors will need to check the web-site of the SGX-ST regularly and/or rely on their brokers/custodians to obtain such notices;

(cc) the reform of HIBOR may adversely affect the value of the Certificates

The Hong Kong Inter-bank Offered Rate ("**HIBOR**") benchmark is referenced in the Leverage Inverse Strategy.

It is not possible to predict with certainty whether, and to what extent, HIBOR will continue to be supported going forwards. This may cause HIBOR to perform differently than they have done in the past, and may have other consequences which cannot be predicted. Such factors may have (without limitation) the following effects: (i) discouraging market participants from continuing to administer or contribute to a benchmark; (ii) triggering changes in the rules or methodologies used in the benchmark and/or (iii) leading to the disappearance of the benchmark. Any of the above changes or any other consequential changes as a result of international or national reforms or other initiatives or investigations, could have a material adverse effect on the value of and return on the Certificates.

In addition, the occurrence of a modification or cessation of HIBOR may cause adjustment of the Certificates which may include selecting one or more successor benchmarks and making related adjustments to the Certificates, including if applicable to reflect increased costs.

The Calculation Agent may make adjustments as it may determine appropriate if any of the following circumstances occurs or may occur: (1) HIBOR is materially changed or cancelled or (2)(i) the relevant authorisation, registration, recognition, endorsement, equivalence decision or approval in respect of the benchmark or the administrator or sponsor of the benchmark is not obtained, (ii) an application for authorisation, registration, recognition, endorsement, equivalence decision, approval or inclusion in any official register is rejected or (iii) any authorisation, registration, recognition, endorsement, equivalence decision or approval is suspended or inclusion in any official register is withdrawn.

Investors should consult their own independent advisers and make their own assessment about the potential risks imposed by any of the international or national reforms in making any investment decision with respect to any Certificate;

(dd) the US Foreign Account Tax Compliance Act ("**FATCA**") withholding risk:

FATCA generally imposes a 30 per cent. withholding tax on certain U.S.-source payments to certain non-US persons that do provide certification of their compliance with IRS rules to disclose the identity of their US owners and account holders (if any) or establish a basis for exemption for such disclosure. The Issuer is subject to FATCA and, as a result, is required to obtain certification from investors that they have complied with FATCA disclosure requirements or have established a basis for exemption from FATCA. If an investor does not provide us with such certification, the Issuer and the Guarantor could be required to withhold U.S. tax on U.S.-source income (if any) paid pursuant to the Certificates. In certain cases, the

Issuer could be required to close an account of an investor who does not comply with the FATCA certification procedures.

FATCA IS PARTICULARLY COMPLEX. EACH INVESTOR SHOULD CONSULT ITS OWN TAX ADVISER TO OBTAIN A MORE DETAILED EXPLANATION OF FATCA AND TO DETERMINE HOW THIS LEGISLATION MIGHT AFFECT EACH INVESTOR IN ITS PARTICULAR CIRCUMSTANCES;

(ee) U.S. withholding tax

The Issuer has determined that this Certificate is not linked to U.S. Underlying Equities within the meaning of applicable regulations under Section 871(m) of the United States Internal Revenue Code, as discussed in the accompanying Base Listing Document under "TAXATION—TAXATION IN THE UNITED STATES OF AMERICA—Section 871(m) of the U.S. Internal Revenue Code of 1986." Accordingly, the Issuer expects that Section 871(m) will not apply to the Certificates. Such determination is not binding on the IRS, and the IRS may disagree with this determination. Section 871(m) is complex and its application may depend on a Certificate Holder's particular circumstances. Certificate Holders should consult with their own tax advisers regarding the potential application of Section 871(m) to the Certificates; and

(ff) risk factors relating to the BRRD

French and Luxembourg law and European legislation regarding the resolution of financial institutions may require the write-down or conversion to equity of the Certificates or other resolution measures if the Issuer or the Guarantor is deemed to meet the conditions for resolution.

Directive 2014/59/EU of the European Parliament and of the Council of the European Union dated 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (the "**BRRD**") entered into force on 2 July 2014. The BRRD has been implemented into Luxembourg law by, among others, the Luxembourg act dated 18 December 2015 on the failure of credit institutions and certain investment firms, as amended (the "**BRR Act 2015**"). Under the BRR Act 2015, the competent authority is the Luxembourg financial sector supervisory authority (*Commission de surveillance du secteur financier*, the CSSF) and the resolution authority is the CSSF acting as resolution council (*conseil de résolution*).

Moreover, Regulation (EU) No. 806/2014 of the European Parliament and of the Council of 15 July 2014 establishing uniform rules and a uniform procedure for the resolution of credit institutions and certain investment firms in the framework of a Single Resolution Mechanism ("**SRM**") and a Single Resolution Fund (the "**SRM Regulation**") has established a centralised power of resolution entrusted to a Single Resolution Board (the "**SRB**") in cooperation with the national resolution authorities.

Since 2014, the European Central Bank ("**ECB**") has taken over the prudential supervision of significant credit institutions in the member states of the Eurozone under the Single Supervisory Mechanism ("**SSM**"). In addition, the SRM has been put in place to ensure that the resolution of credit institutions and certain investment firms across the Eurozone is harmonised. As mentioned above, the SRM is managed by the SRB. Under Article 5(1) of the SRM Regulation, the SRM has been granted those responsibilities and powers granted to the EU Member States' resolution authorities under the BRRD for those credit institutions and certain investment firms subject to direct supervision by the ECB. The ability of the SRB to exercise these powers came into force at the beginning of 2016.

Societe Generale has been designated as a significant supervised entity for the purposes of Article 49(1) of Regulation (EU) No 468/2014 of the ECB of 16 April 2014 establishing the framework for cooperation within the SSM between the ECB and national competent authorities and with national designated authorities (the "**SSM Regulation**") and is consequently subject to the direct supervision of the ECB in the context of the SSM. This means that Societe Generale and SG Issuer (being covered by the consolidated prudential supervision of Societe Generale) are also subject to the SRM which came into force in 2015. The SRM Regulation mirrors the BRRD and, to a large part, refers to the BRRD so that the SRB is able to apply the same powers that would otherwise be available to the relevant national resolution authority.

The stated aim of the BRRD and the SRM Regulation is to provide for the establishment of an EU-wide framework for the recovery and resolution of credit institutions and certain investment firms. The regime provided for by the BRRD is, among other things, stated to be needed to provide the resolution authority designated by each EU Member State (the "**Resolution Authority**") with a credible set of tools to intervene sufficiently early and quickly in an unsound or failing institution so as to ensure the continuity of the institution's critical financial and economic functions while minimising the impact of an institution's failure on the economy and financial system (including taxpayers' exposure to losses).

Under the SRM Regulation, a centralised power of resolution is established and entrusted to the SRB acting in cooperation with the national resolution authorities. In accordance with the provisions of the SRM Regulation, when applicable, the SRB, has replaced the national resolution authorities designated under the BRRD with respect to all aspects relating to the decision-making process and the national resolution authorities designated under the BRRD continue to carry out activities relating to the implementation of resolution schemes adopted by the SRB. The provisions relating to the cooperation between the SRB and the national resolution authorities for the preparation of the institutions' resolution plans have applied since 1 January 2015 and the SRM has been fully operational since 1 January 2016.

The SRB is the Resolution Authority for the Issuer and the Guarantor.

The powers provided to the Resolution Authority in the BRRD and the SRM Regulation include write-down/conversion powers to ensure that capital instruments (including subordinated debt instruments) and eligible liabilities (including senior debt instruments if junior instruments prove insufficient to absorb all losses) absorb losses of the issuing institution that is subject to resolution in accordance with a set order of priority (the "**Bail-in Power**"). The conditions for resolution under the SRM Regulation are deemed to be met when: (i) the Resolution Authority determines that the institution is failing or is likely to fail, (ii) there is no reasonable prospect that any measure other than a resolution measure would prevent the failure within a reasonable timeframe, and (iii) a resolution measure is necessary for the achievement of the resolution objectives (in particular, ensuring the continuity of critical functions, avoiding a significant adverse effect on the financial system, protecting public funds by minimizing reliance on extraordinary public financial support, and protecting client funds and assets) and winding up of the institution under normal insolvency proceedings would not meet those resolution objectives to the same extent.

The Resolution Authority could also, independently of a resolution measure or in combination with a resolution measure, fully or partially write-down or convert capital instruments (including subordinated debt instruments) into equity when it determines that the institution or its group will no longer be viable unless such write-down or conversion power is exercised or when the institution requires extraordinary public financial support (except when extraordinary public financial support is provided in Article 10 of the SRM Regulation). The terms and conditions of the Certificates contain provisions giving effect to the Bail-in Power in the context of resolution and write-down or conversion of capital instruments at the point of non-viability.

The Bail-in Power could result in the full (i.e., to zero) or partial write-down or conversion of the Certificates into ordinary shares or other instruments of ownership, or the variation of the terms of the Certificates (for example, the maturity and/or interest payable may be altered and/or a temporary suspension of payments may be ordered). Extraordinary public financial support should only be used as a last resort after having assessed and applied, to the maximum extent practicable, the resolution measures. No support will be available until a minimum amount of contribution to loss absorption and recapitalization of 8% of total liabilities including own funds has been made by shareholders, holders of capital instruments and other eligible liabilities through write-down, conversion or otherwise.

In addition to the Bail-in Power, the BRRD provides the Resolution Authority with broader powers to implement other resolution measures with respect to institutions that meet the conditions for resolution, which may include (without limitation) the sale of the institution's business, the creation of a bridge institution, the separation of assets, the replacement or substitution of the institution as obligor in respect of debt instruments, modifications to the terms of debt instruments (including altering the maturity and/or the amount of interest payable and/or imposing a temporary suspension on payments), removing management, appointing an interim administrator, and discontinuing the listing and admission to trading of financial instruments.

Before taking a resolution measure, including implementing the Bail-in Power, or exercising the power to write down or convert relevant capital instruments, the Resolution Authority must ensure that a fair, prudent and realistic valuation of the assets and liabilities of the institution is carried out by a person independent from any public authority.

The application of any measure under the BRRD and the SRM Regulation or any suggestion of such application with respect to the Issuer, the Guarantor or the Group could materially adversely affect the rights of Certificate Holders, the price or value of an investment in the Certificates and/or the ability of the Issuer or the Guarantor to satisfy its obligations under any Certificates, and as a result investors may lose their entire investment.

Moreover, if the Issuer's or the Guarantor's financial condition deteriorates, the existence of the Bail-in Power, the exercise of write-down/conversion powers or any other resolution tools by the Resolution Authority independently of a resolution measure or in combination with a resolution measure when it determines that the Issuer, the Guarantor or the Group will no longer be viable could cause the market price or value of the Certificates to decline more rapidly than would be the case in the absence of such powers.

Since 1 January 2016, EU credit institutions (such as Societe Generale) and certain investment firms have to meet, at all times, a minimum requirement for own funds and eligible liabilities ("**MREL**") pursuant to Article 12 of the SRM Regulation. MREL, which is expressed as a percentage of the total liabilities and own funds of the institution, aims at preventing institutions from structuring their liabilities in a manner that impedes the effectiveness of the Bail-in Power in order to facilitate resolution.

The current regime will evolve as a result of the changes adopted by the EU legislators. On 7 June 2019, as part of the contemplated amendments to the so-called "EU Banking Package", the following legislative texts have been published in the Official Journal of the EU 14 May 2019:

- Directive (EU) 2019/879 of the European Parliament and of the Council of 20 May 2019 amending the BRRD as regards the loss-absorbing and recapitalisation capacity of credit institutions and investment firms (the "**BRRD II**"); and
- Regulation (EU) 2019/877 of the European Parliament and of the Council of 20 May 2019 amending the SRM Regulation as regards the loss-absorbing and recapitalisation capacity ("**TLAC**") of credit institutions and investment firms (the "**SRM II Regulation**" and, together with the BRRD II, the "**EU Banking Package Reforms**").

The EU Banking Package Reforms will introduce, among other things, the TLAC standard as implemented by the Financial Stability Board's TLAC Term Sheet ("**FSB TLAC Term Sheet**"), by adapting, among others, the existing regime relating to the specific MREL with aim of reducing risks in the banking sector and further reinforcing institutions' ability to withstand potential shocks will strengthen the banking union and reduce risks in the financial system.

The TLAC will be implemented in accordance with the FSB TLAC Term Sheet, which impose a level of "Minimum TLAC" that will be determined individually for each global systemically important bank ("**G-SIB**"), such as Societe Generale, in an amount at least equal to (i) 16%, plus applicable buffers, of risk weight assets through January 1, 2022 and 18%, plus applicable buffers, thereafter and (ii) 6% of the Basel III leverage ratio denominator through January 1, 2022 and 6.75% thereafter (each of which could be extended by additional firm-specific requirements).

According to Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms (the "**CRR**"), as amended by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending the CRR as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements (the "**CRR II**"), EU G-SIBs, such as Societe Generale, will have to comply with TLAC requirements, on top of the MREL requirements, as from the entry into force of the CRR II. As such, G-SIBs, such as Societe Generale will have to comply at the same time with TLAC and MREL requirements.

Consequently, criteria for MREL-eligible liabilities will be closely aligned with those laid down in the CRR, as amended by the CRR II for the TLAC-eligible liabilities, but subject to the complementary adjustments and requirements introduced in the BRRD II. In particular, certain debt instruments with an embedded derivative component, such as certain structured notes, will be eligible, subject to certain conditions, to meet the MREL requirements to the extent that they have a fixed or increasing principal amount repayable at maturity that is known in advance while only an additional return is linked to that derivative component and depends on the performance of a reference asset.

The level of capital and eligible liabilities required under MREL will be set by the SRB for Societe Generale on an individual and/or consolidated basis based on certain criteria including systemic importance any may also be set for SG Issuer. Eligible liabilities may be senior or subordinated, provided, among other requirements, that they have a remaining maturity of at least one year and, if governed by non-EU law, they must be able to be written down or converted under that law (including through contractual provisions).

The scope of liabilities used to meet the MREL will include, in principle, all liabilities resulting from claims arising from ordinary unsecured creditors (non-subordinated liabilities) unless they do not meet specific eligibility criteria set out in the BRRD, as amended by the BRRD II. To enhance the resolvability of institutions and entities through an effective use of the bail-in tool, the SRB should be able to require that the MREL be met with own funds and other subordinated liabilities, in particular where there are clear indications that bailed-in creditors are likely to bear losses in resolution that would exceed the losses that they would incur under normal insolvency proceedings. Moreover the SRB should assess the need to require institutions and entities to meet the MREL with own funds and other subordinated liabilities where the amount of liabilities excluded from the application of the bail- in tool reaches a certain threshold within a class of liabilities that includes MREL-eligible liabilities. Any subordination of debt instruments requested by the SRB for the MREL shall be without prejudice to the possibility to partly meet the TLAC requirements with non-subordinated debt instruments in accordance with the CRR, as amended by the CRR II, as permitted by the TLAC standard. Specific requirements will apply to resolution groups with assets above EUR 100 billion (top-tier banks).

If the SRB finds that there could exist any obstacles to resolvability by the Issuer or the Guarantor and/or the Group, a higher MREL requirement could be imposed. Any failure by the Issuer or the Guarantor, as applicable, and/or the Group to comply with its MREL may have a material adverse effect on the Issuer's business, financial conditions and results of operations.

TERMS AND CONDITIONS OF THE CERTIFICATES

The following are the terms and conditions of the Certificates and should be read in conjunction with, and are qualified by reference to, the other information set out in this document and the Base Listing Document.

The Conditions are set out in the section headed "Terms and Conditions of the European Style Cash Settled Long/Short Certificates on Single Equities" in the Base Listing Document. For the purposes of the Conditions, the following terms shall have the following meanings:

Certificates:	10,000,000 European Style Cash Settled Short Certificates relating to the Class A ordinary shares of Baidu, Inc. (the **"Underlying Stock**")
ISIN:	LU2184322639
Company:	Baidu, Inc. (RIC: 9888.HK)
Underlying Price[3] and Source:	HK$184.00 (Reuters)
Calculation Agent:	Société Générale
Strike Level:	Zero
Daily Leverage:	-5x (within the Leverage Inverse Strategy as described below)
Notional Amount per Certificate:	SGD 1.20
Management Fee (p.a.)[4]:	0.40%
Gap Premium (p.a.)[5]:	8.00%, is a hedging cost against extreme market movements overnight.
Stock Borrowing Cost[6]:	The annualised costs for borrowing stocks in order to take an inverse exposure on the Underlying Stock.
Rebalancing Cost[6]:	The transaction costs (if applicable), computed as a function of leverage and daily inverse performance of the Underlying Stock.
Launch Date:	6 May 2021
Closing Date:	12 May 2021

[3] These figures are calculated as at, and based on information available to the Issuer on or about 12 May 2021. The Issuer is not obliged, and undertakes no responsibility to any person, to update or inform any person of any changes to the figures after 12 May 2021.
[4] Please note that the Management Fee is calculated on a 360-day basis and may be increased up to a maximum of 3% p.a. on giving one month's notice to investors. Any increase in the Management Fee will be announced on the SGXNET. Please refer to "Fees and Charges" below for further details of the fees and charges payable and the maximum of such fees as well as other ongoing expenses that may be borne by the Certificates.
[5] Please note that the Gap Premium is calculated on a 360-day basis.
[6] These costs are embedded within the Leverage Inverse Strategy. Please note that the Stock Borrowing Cost may be changed on giving 5 Business Days' notice to investors. Any change in the Stock Borrowing Cost will be announced on the SGXNET.

Expected Listing Date:	14 May 2021
Last Trading Date:	The date falling 5 Business Days immediately preceding the Expiry Date, currently being 4 May 2022
Expiry Date:	11 May 2022 (if the Expiry Date is not a Business Day, then the Expiry Date shall fall on the preceding Business Day and subject to adjustment of the Valuation Date upon the occurrence of Market Disruption Events as set out in the Conditions of the Certificates)
Board Lot:	100 Certificates
Valuation Date:	10 May 2022 or if such day is not an Exchange Business Day, the immediately preceding Exchange Business Day.
Exercise:	The Certificates may only be exercised on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day, in a Board Lot or integral multiples thereof. Certificate Holders shall not be required to deliver an exercise notice. Exercise of Certificates shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Certificates shall be deemed to have been automatically exercised at 10:00 a.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day. The Cash Settlement Amount less the Exercise Expenses in respect of the Certificates shall be paid in the manner set out in Condition 4(c) of the Conditions. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero, all Certificates shall be deemed to have expired at 10:00 a.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day, and Certificate Holders shall not be entitled to receive any payment from the Issuer in respect of the Certificates.
Cash Settlement Amount:	In respect of each Certificate, shall be an amount payable in the Settlement Currency equal to: Closing Level multiplied by the Notional Amount per Certificate Please refer to the "Information relating to the European Style Cash Settled Short Certificates on Single Equities" section on pages 41 to 55 of this document for examples and illustrations of the calculation of the Cash Settlement Amount.
Hedging Fee Factor:	In respect of each Certificate, shall be an amount calculated as: Product (for t from 2 to Valuation Date) of (1 – Management Fee x (ACT (t-1;t) ÷ 360)) x (1 – Gap Premium (t-1) x (ACT (t-1;t) ÷ 360)), where: "**t**" refers to "**Observation Date**" which means each Underlying Stock Business Day (subject to Market Disruption Event) from (and

including) the Underlying Stock Business Day immediately preceding the Expected Listing Date to the Valuation Date; and

ACT (t-1;t) means the number of calendar days between the Underlying Stock Business Day immediately preceding the Observation Date (which is "t-1") (included) and the Observation Date (which is "t") (excluded).

If the Issuer determines, in its sole discretion, that on any Observation Date a Market Disruption Event has occurred, then that Observation Date shall be postponed until the first succeeding Underlying Stock Business Day on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the five Underlying Stock Business Days immediately following the original date that, but for the Market Disruption Event, would have been an Observation Date. In that case, that fifth Underlying Stock Business Day shall be deemed to be the Observation Date notwithstanding the Market Disruption Event and the Issuer shall determine, its good faith estimate of the level of the Leverage Inverse Strategy and the value of the Certificate on that fifth Underlying Stock Business Day in accordance with the formula for and method of calculation last in effect prior to the occurrence of the first Market Disruption Event taking into account, inter alia, the exchange traded or quoted price of the Underlying Stock and the potential increased cost of hedging by the Issuer as a result of the occurrence of the Market Disruption Event.

An "**Underlying Stock Business Day**" is a day on which The Stock Exchange of Hong Kong Limited (the "**HKEX**") is open for dealings in Hong Kong during its normal trading hours and banks are open for business in Hong Kong.

Please refer to the "Information relating to the European Style Cash Settled Short Certificates on Single Equities" section on pages 41 to 55 of this document for examples and illustrations of the calculation of the Hedging Fee Factor.

Closing Level: In respect of each Certificate, shall be an amount payable in the Settlement Currency equal to:

$$\left(\frac{\text{Final Reference Level} \times \text{Final Exchange Rate}}{\text{Initial Reference Level} \times \text{Initial Exchange Rate}} - \text{Strike Level}\right) \times \text{Hedging Fee Factor}$$

Initial Reference Level: 1,000

Final Reference Level: The closing level of the Leverage Inverse Strategy (as described below) on the Valuation Date

The calculation of the closing level of the Leverage Inverse Strategy is set out in the "Specific Definitions relating to the Leverage Inverse Strategy" section on pages 21 to 24 below.

Initial Exchange Rate[3]: 0.1710

Final Exchange Rate:	The rate for the conversion of HKD to SGD as at 5:00pm (Singapore Time) on the Valuation Date as shown on Reuters, provided that if the Reuters service ceases to display such information, as determined by the Issuer by reference to such source(s) as the Issuer may reasonably determine to be appropriate at such a time.
Air Bag Mechanism:	The "**Air Bag Mechanism**" refers to the mechanism built in the Leverage Inverse Strategy and which is designed to reduce the Leverage Inverse Strategy exposure to the Underlying Stock during extreme market conditions. If the Underlying Stock rises by 15% or more ("**Air Bag Trigger Price**") during the trading day (which represents approximately 75% loss after a 5 times inverse leverage), the Air Bag Mechanism is triggered and the Leverage Inverse Strategy is adjusted intra-day. The Air Bag Mechanism reduces the impact on the Leverage Inverse Strategy if the Underlying Stock rises further, but will also maintain a reduced exposure to the Underlying Stock in the event the Underlying Stock starts to fall after the Air Bag Mechanism is triggered, thereby reducing its ability to recoup losses. Trading of Certificates is suspended for at least 30 minutes after the Air Bag is triggered. The Leverage Inverse Strategy is floored at 0 and the Certificates cannot be valued below zero. Please refer to the "Extraordinary Strategy Adjustment for Performance Reasons ("Air Bag Mechanism")" section on pages 22 to 24 below and the "Description of Air Bag Mechanism" section on pages 47 to 48 of this document for further information of the Air Bag Mechanism.
Adjustments and Extraordinary Events:	The Issuer has the right to make adjustments to the terms of the Certificates if certain events, including any capitalisation issue, rights issue, extraordinary distributions, merger, delisting, insolvency (as more specifically set out in the terms and conditions of the Certificates) occur in respect of the Underlying Stock. For the avoidance of doubt, no notice will be given if the Issuer determines that adjustments will not be made.
Underlying Stock Currency:	Hong Kong Dollar ("**HKD**")
Settlement Currency:	Singapore Dollar ("**SGD**")
Exercise Expenses:	Certificate Holders will be required to pay all charges which are incurred in respect of the exercise of the Certificates.
Relevant Stock Exchange for the Certificates:	The Singapore Exchange Securities Trading Limited (the "**SGX-ST**")
Relevant Stock Exchange for the Underlying Stock:	HKEX

Business Day and Exchange Business Day:	A "**Business Day**" is a day on which the SGX-ST is open for dealings in Singapore during its normal trading hours and banks are open for business in Singapore. An "**Exchange Business Day**" is a day on which the SGX-ST and the HKEX are open for dealings in Singapore and Hong Kong respectively during its normal trading hours and banks are open for business in Singapore and Hong Kong.
Warrant Agent:	The Central Depository (Pte) Limited ("**CDP**")
Clearing System:	CDP
Fees and Charges:	Normal transaction and brokerage fees shall apply to the trading of the Certificates on the SGX-ST. Investors should note that they may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where the Certificates are transferred. Investors who are in any doubt as to their tax position should consult their own independent tax advisers. In addition, investors should be aware that tax regulations and their application by the relevant taxation authorities change from time to time. Accordingly, it is not possible to predict the precise tax treatment which will apply at any given time. Investors holding position overnight would also be required to bear the Management Fee and Gap Premium, which are calculated daily and applied to the value of the Certificates, as well as certain costs embedded within the Leverage Inverse Strategy including the Stock Borrowing Cost and Rebalancing Cost. The Management Fee may be increased up to a maximum of 3% p.a. on giving one month's notice to investors in accordance with the terms and conditions of the Certificates. Any increase in the Management Fee will be announced on the SGXNET.
Further Information:	Please refer to the website at dlc.socgen.com for more information on the theoretical closing price of the Certificates on the previous trading day, the closing price of the Underlying Stock on the previous trading day, the Air Bag Trigger Price for each trading day and the Management Fee and Gap Premium.

Specific Definitions relating to the Leverage Inverse Strategy

Description of the Leverage Inverse Strategy

The Leverage Inverse Strategy is designed to track a 5 times daily leveraged inverse exposure to the Underlying Stock.

At the end of each trading day of the Underlying Stock, the exposure of the Leverage Inverse Strategy to the Underlying Stock is reset within the Leverage Inverse Strategy in order to retain a daily leverage of 5 times the inverse performance of the Underlying Stock (excluding costs) regardless of the performance of the Underlying Stock on the preceding day. This mechanism is referred to as the Daily Reset.

The Leverage Inverse Strategy incorporates an air bag mechanism which is designed to reduce exposure to the Underlying Stock during extreme market conditions, as further described below.

<u>Leverage Inverse Strategy Formula</u>

$\mathbf{LSL_t}$ means, for any Observation Date(t), the Leverage Inverse Strategy Closing Level as of such day (t).

Subject to the occurrence of an Intraday Restrike Event, the **Leverage Inverse Strategy Closing Level** as of such Observation Date(t) is calculated in accordance with the following formulae:

On Observation Date(1):

$$\mathrm{LSL_1} = 1000$$

On each subsequent Observation Date(t):

$$\mathrm{LSL_t} = \mathrm{Max}\left[\mathrm{LSL_{t-1}} \times \left(1 + \mathrm{LR_{t-1,t}} - \mathrm{FC_{t-1,t}} - \mathrm{SB_{t-1,t}} - \mathrm{RC_{t-1,t}}\right), 0\right]$$

$\mathbf{LR_{t-1,t}}$ means the Leveraged Return of the Underlying Stock between Observation Date(t-1) and Observation Date(t) closing prices, calculated as follows:

$$\mathrm{LR_{t-1,t}} = \mathrm{Leverage} \times \left(\frac{\mathrm{S_t}}{\mathrm{S_{t-1}} \times \mathrm{Rfactor_t}} - 1\right)$$

$\mathbf{FC_{t-1,t}}$ means, the Funding Cost between Observation Date(t-1) (included) and Observation Date(t) (excluded) calculated as follows:

$$\mathrm{FC_{t-1,t}} = (\mathrm{Leverage} - 1) \times \frac{\mathrm{Rate_{t-1}} \times \mathrm{ACT(t-1,t)}}{\mathrm{DayCountBasisRate}}$$

$\mathbf{SB_{t-1,t}}$ means the Stock Borrowing Cost between Observation Date(t-1) (included) and Observation Date(t) (excluded) calculated as follows :

$$\mathrm{SB_{t-1,t}} = -\mathrm{Leverage} \times \frac{\mathrm{CB} \times \mathrm{ACT(t-1,t)}}{\mathrm{DayCountBasisRate}}$$

CB means the Cost of Borrowing applicable that is equal to: 2.00%

$\mathbf{RC_{t-1,t}}$ means the Rebalancing Cost of the Leverage Inverse Strategy on Observation Date (t), calculated as follows:

$$\mathrm{RC_{t-1,t}} = \mathrm{Leverage} \times (\mathrm{Leverage} - 1) \times \left(\left|\frac{\mathrm{S_t}}{\mathrm{S_{t-1}} \times Rfactor_t} - 1\right|\right) \times \mathrm{TC}$$

TC means the Transaction Costs applicable (including Stamp Duty) that are equal to:

0.10%

Leverage -5

$\mathbf{S_t}$ means, in respect of each Observation Date(t), the Closing Price of the Underlying Stock as of such Observation Date(t), subject to the adjustments and provisions of the Conditions.

$\mathbf{Rate_t}$ means, in respect of each Observation Date(t), the Overnight HKD Hong Kong Interbank Offered Rate (HIBOR) Fixing, as published on Reuters RIC HIHKDOND= or any successor page, being the rate as of day (t), provided that if any of such rate is not available, then that rate shall be determined by reference to the latest available rate that was published on the relevant Reuters page. Upon the occurrence or likely occurrence, as determined by the Calculation Agent, of modification, the permanent or indefinite cancellation or cessation in the provision of HIBOR, or a regulator or other official sector entity prohibits the use of HIBOR, the Calculation Agent may make adjustments as it may determine appropriate to account for the relevant event or circumstance, including but not limited to using any alternative rates from such date, with or without retroactive effect as the Calculation Agent may in its sole and absolute discretion determine.

$\mathbf{Rfactor_t}$ means, in the event Observation Date (t) is an ex-dividend date of the Underlying Stock, an amount determined by the Calculation Agent, subject to the adjustments and provisions of the Conditions, according to the following formula :

$$Rfactor_t = 1 - \frac{Div_t}{\mathbf{S_{t-1}}}$$

where

Div_t is the dividend to be paid out in respect of the Underlying Stock and the relevant ex-dividend date which shall be considered gross of any applicable withholding taxes.

ACT(t-1,t) ACT (t-1;t) means the number of calendar days between the Underlying Stock Business Day immediately preceding the Observation Date (which is “t-1”) (included) and the Observation Date (which is “t”) (excluded).

DayCount BasisRate 365

<u>Extraordinary Strategy Adjustment for Performance Reasons (“Air Bag Mechanism”)</u>

Extraordinary Strategy Adjustment for Performance Reasons If the Calculation Agent determines that an Intraday Restrike Event has occurred during an Observation Date(t) (the **Intraday Restrike Date,** noted hereafter **IRD**), an adjustment (an **Extraordinary Strategy Adjustment for Performance Reasons**) shall take place during such Observation Date(t) in accordance with the following provisions.

(1) Provided the last Intraday Restrike Observation Period as of such Intraday Restrike Date does not end on the TimeReferenceClosing, the Leverage Inverse Strategy Closing Level on the Intraday Restrike Date ($\mathrm{LSL_{IRD}}$) should be computed as follows :

$$\mathrm{LSL_{IRD}} = \mathrm{Max}\left[\mathrm{ILSL_{IR(n)}} \times \left(1 + \mathrm{ILR_{IR(n),IR(C)}} - \mathrm{IRC_{IR(n),IR(C)}}\right), 0\right]$$

(2) If the last Intraday Restrike Event Observation Period on the relevant Intraday Restrike Date ends on the TimeReferenceClosing:

$$\mathrm{LSL_{IRD}} = \mathrm{Max}\left[\mathrm{ILSL_{IR(n)}}, 0\right]$$

$ILSL_{IR(k)}$ means, in respect of IR(k), the Intraday Leverage Inverse Strategy Level in accordance with the following provisions :

(1) for k = 1 :

$$ILSL_{IR(1)} = Max\left[LSL_{IRD-1} \times \left(1 + ILR_{IR(0),IR(1)} - FC_{IRD-1,IRD} - SB_{IRD-1,IRD} - IRC_{IR(0),IR(1)}\right), 0\right]$$

(2) for k > 1 :

$$ILSL_{IR(k)} = Max\left[ILSL_{IR(k-1)} \times \left(1 + ILR_{IR(k-1),IR(k)} - IRC_{IR(k-1),IR(k)}\right), 0\right]$$

$ILR_{IR(k-1),IR(k)}$ means the Intraday Leveraged Return between IR(k-1) and IR(k), calculated as follows:

$$ILR_{IR(k-1),IR(k)} = Leverage \times \left(\frac{IS_{IR(k)}}{IS_{IR(k-1)}} - 1\right)$$

$IRC_{IR(k-1),IR(k)}$ means the Intraday Rebalancing Cost of the Leverage Inverse Strategy in respect of IR(k) on a given Intraday Restrike Date, calculated as follows :

$$IRC_{IR(k-1),IR(k)} = Leverage \times (Leverage-1) \times \left(\left|\frac{IS_{IR(k)}}{IS_{IR(k-1)}} - 1\right|\right) \times TC$$

$IS_{IR(k)}$ means the Underlying Stock Price in respect of IR(k) computed as follows:

(1) for k=0

$$IS_{IR(0)} = S_{IRD-1} \times Rfactor_{IRD}$$

(2) for k=1 to n

means in respect of IR(k), the highest price of the Underlying Stock during the respective Intraday Restrike Observation Period

(3) with respect to IR(C)

$$IS_{IR(C)} = S_{IRD}$$

In each case, subject to the adjustments and provisions of the Conditions.

IR(k) For k=0, means the scheduled close for the Relevant Stock Exchange for the Underlying Stock (or any successor thereto) on the Observation Date immediately preceding the relevant Intraday Restrike Date;

For k=1 to n, means the k^{th} Intraday Restrike Event on the relevant Intraday Restrike Date.

IR(C) means the scheduled close for the Relevant Stock Exchange for the Underlying Stock (or any successor thereto) on the relevant Intraday Restrike Date.

n means the number of Intraday Restrike Events that occurred on the relevant Intraday Restrike Date.

Intraday Restrike Event means in respect of an Observation Date(t):

(1) provided no Intraday Restrike Event has previously occurred on such Observation Date (t), the increase at any Calculation Time of the Underlying Stock price by 15% or more compared with the relevant Underlying Stock

Price $\mathbf{IS_{IR(0)}}$ as of such Calculation Time.

(2) if k Intraday Restrike Events have occurred on the relevant Intraday Restrike Date, the increase at any Calculation Time of the Underlying Stock price by 15% or more compared with the relevant Underlying Stock Price $\mathbf{IS_{IR(k)}}$ as of such Calculation Time.

Calculation Time	means any time between the TimeReferenceOpening and the TimeReferenceClosing, provided that the relevant data is available to enable the Calculation Agent to determine the Leverage Inverse Strategy Level.
TimeReferenceOpening	means the scheduled opening time for the Relevant Stock Exchange for the Underlying Stock (or any successor thereto).
TimeReferenceClosing	means the scheduled closing time for the Relevant Stock Exchange for the Underlying Stock (or any successor thereto).
Intraday Restrike Event Observation Period	means in respect of an Intraday Restrike Event, the period starting on and excluding the Intraday Restrike Event Time and finishing on and including the sooner between (1) the time falling 15 minutes after the Intraday Restrike Event Time and (2) the TimeReferenceClosing. Where, during such period, the Calculation Agent determines that (1) the trading in the Underlying Stock is disrupted or subject to suspension or limitation or (2) the Relevant Stock Exchange for the Underlying Stock is not open for continuous trading, the Intraday Restrike Event Observation Period will be extended to the extent necessary until (1) the trading in the Underlying Stock is no longer disrupted, suspended or limited and (2) the Relevant Stock Exchange for the Underlying Stock is open for continuous trading.
Intraday Restrike Event Time	means in respect of an Intraday Restrike Event, the Calculation Time on which such event occurs.

The Conditions set out in the section headed "Terms and Conditions of the European Style Cash Settled Long/Short Certificates on Single Equities" in the Base Listing Document are set out below. This section is qualified in its entirety by reference to the detailed information appearing elsewhere in this document which shall, to the extent so specified or to the extent inconsistent with the relevant Conditions set out below, replace or modify the relevant Conditions for the purpose of the Certificates.

TERMS AND CONDITIONS OF THE EUROPEAN STYLE CASH SETTLED LONG/SHORT CERTIFICATES ON SINGLE EQUITIES

1. Form, Status and Guarantee, Transfer and Title

(a) *Form*. The Certificates (which expression shall, unless the context otherwise requires, include any further certificates issued pursuant to Condition 11) are issued subject to and with the benefit of:-

(i) a master instrument by way of deed poll (the "**Master Instrument**") dated 19 June 2020, made by SG Issuer (the "**Issuer**") and Société Générale (the "**Guarantor**"); and

(ii) a warrant agent agreement (the "**Master Warrant Agent Agreement**" or "**Warrant Agent Agreement**") dated any time before or on the Closing Date, made between the Issuer and the Warrant Agent for the Certificates.

Copies of the Master Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement are available for inspection at the specified office of the Warrant Agent.

The holders of the Certificates (the "**Certificate Holders**") are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Master Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement.

(b) *Status and Guarantee*. The Certificates constitute direct, general and unsecured obligations of the Issuer and rank, and will rank, equally among themselves and *pari passu* with all other present and future unsecured and unsubordinated obligations of the Issuer (save for statutorily preferred exceptions). The Certificates provide for cash settlement on exercise. The Certificates do not entitle Certificate Holders to the delivery of any Underlying Stock, are not secured by the Underlying Stock and do not entitle Certificate Holders to any interest in any Underlying Stock.

The due and punctual payment of any amounts due by the Issuer in respect of the Certificates issued by the Issuer is unconditionally and irrevocably guaranteed by the Guarantor as provided in the Guarantee (each such amount payable under the Guarantee, a "**Guarantee Obligation**").

The Guarantee Obligations will constitute direct, unconditional, unsecured and unsubordinated obligations of the Guarantor ranking as senior preferred obligations as provided for in Article L. 613-30-3 I 3° of the French Code *Monétaire et Financier* (the "**Code**").

Such Guarantee Obligations rank and will rank equally and rateably without any preference or priority among themselves and:

(i) *pari passu* with all other direct, unconditional, unsecured and unsubordinated obligations of the Guarantor outstanding as of the date of the entry into force of the law no. 2016-1691 (the "**Law**") on 11 December 2016;

(ii) *pari passu* with all other present or future direct, unconditional, unsecured and senior preferred obligations (as provided for in Article L. 613-30-3 I 3° of the Code) of the Guarantor issued after the date of the entry into force of the Law on 11 December 2016;

(iii) junior to all present or future claims of the Guarantor benefiting from the statutorily preferred exceptions; and

(iv) senior to all present and future senior non-preferred obligations (as provided for in Article L.613-30-3 I 4° of the Code) of the Guarantor.

In the event of the failure of the Issuer to promptly perform its obligations to any Certificate Holder under the terms of the Certificates, such Certificate Holder may, but is not obliged to, give written notice to the Guarantor at Société Générale, Tour Société Générale, 75886 Paris Cedex 18, France marked for the attention of SEGL/JUR/OMF - Market Transactions & Financing.

(c) Transfer. The Certificates are represented by a global warrant certificate ("**Global Warrant**") which will be deposited with The Central Depository (Pte) Limited ("**CDP**"). Certificates in definitive form will not be issued. Transfers of Certificates may be effected only in Board Lots or integral multiples thereof. All transactions in (including transfers of) Certificates, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records maintained by CDP.

(d) *Title*. Each person who is for the time being shown in the records maintained by CDP as entitled to a particular number of Certificates shall be treated by the Issuer, the Guarantor and the Warrant Agent as the holder and absolute owner of such number of Certificates, notwithstanding any notice to the contrary. The expression "**Certificate Holder**" shall be construed accordingly.

(e) *Bail-In*. By the acquisition of Certificates, each Certificate Holder (which, for the purposes of this Condition, includes any current or future holder of a beneficial interest in the Certificates) acknowledges, accepts, consents and agrees:

(i) to be bound by the effect of the exercise of the Bail-In Power (as defined below) by the Relevant Resolution Authority (as defined below) on the Issuer's liabilities under the Certificates, which may include and result in any of the following, or some combination thereof:

(A) the reduction of all, or a portion, of the Amounts Due (as defined below), on a permanent basis;

(B) the conversion of all, or a portion, of the Amounts Due into shares, other securities or other obligations of the Issuer or the Guarantor or another person (and the issue to the Certificate Holder of such shares, securities or obligations), including by means of an amendment, modification or variation of the Conditions of the Certificates, in which case the Certificate Holder agrees to accept in lieu of its rights under the Certificates any such shares, other securities or other obligations of the Issuer or the Guarantor or another person;

(C) the cancellation of the Certificates; and/or

(D) the amendment or alteration of the expiration of the Certificates or amendment of the amounts payable on the Certificates, or the date on which the amounts become payable, including by suspending payment for a temporary period; and

that terms of the Certificates are subject to, and may be varied, if necessary, to give effect to the exercise of the Bail-In Power by the Relevant Resolution Authority or the Regulator,

(the "**Statutory Bail-In**");

(ii) if the Relevant Resolution Authority exercises its Bail-In Power on liabilities of the Guarantor, pursuant to Article L.613-30-3-I-3 of the French Monetary and Financial Code (the "**M&F Code**"):

(A) ranking:

(1) junior to liabilities of the Guarantor benefitting from statutorily preferred exceptions pursuant to Article L.613-30-3-I 1° and 2 of the M&F Code;

(2) *pari passu* with liabilities of the Guarantor as defined in Article L.613-30-3-I-3 of the M&F Code; and

(3) senior to liabilities of the Guarantor as defined in Article L.613-30-3-I-4 of the M&F Code; and

(B) which are not *titres non structurés* as defined under Article R.613-28 of the M&F Code, and

(C) which are not or are no longer eligible to be taken into account for the purposes of the MREL (as defined below) ratio of the Guarantor

and such exercise of the Bail-In Power results in the write-down or cancellation of all, or a portion of, the principal amount of, or the outstanding amount payable in respect of, and/or interest on, such liabilities, and/or the conversion of all, or a portion, of the principal amount of, or the outstanding amount payable in respect of, or interest on, such liabilities into shares or other securities or other obligations of the Guarantor or another person, including by means of variation to their terms and conditions in order to give effect to such exercise of Bail-In Power, then the Issuer's obligations under the Certificates will be limited to (i) payment of the amount as reduced or cancelled that would be recoverable by the Certificate Holders and/or (ii) the delivery or the payment of value of the shares or other securities or other obligations of the Guarantor or another person that would be paid or delivered to the Certificate Holders as if, in either case, the Certificates had been directly issued by the Guarantor itself, and as if any Amount Due under the Certificates had accordingly been directly subject to the exercise of the Bail-In Power (the "**Contractual Bail-in**").

No repayment or payment of the Amounts Due will become due and payable or be paid after the exercise of the Statutory Bail-In with respect to the Issuer or the Guarantor unless, at the time such repayment or payment, respectively, is scheduled to become due, such repayment or payment would be permitted to be made by the

Issuer or the Guarantor under the applicable laws and regulations in effect in France or Luxembourg and the European Union applicable to the Issuer or the Guarantor or other members of its group.

No repayment or payment of the Amounts Due will become due and payable or be paid under the Certificates issued by SG Issuer after implementation of the Contractual Bail-in.

Upon the exercise of the Statutory Bail-in or upon implementation of the Contractual Bail-in with respect to the Certificates, the Issuer or the Guarantor will provide a written notice to the Certificate Holders in accordance with Condition 9 as soon as practicable regarding such exercise of the Statutory Bail-in or implementation of the Contractual Bail-in. Any delay or failure by the Issuer or the Guarantor to give notice shall not affect the validity and enforceability of the Statutory Bail-in or Contractual Bail-in nor the effects on the Certificates described above.

Neither a cancellation of the Certificates, a reduction, in part or in full, of the Amounts Due, the conversion thereof into another security or obligation of the Issuer or the Guarantor or another person, as a result of the exercise of the Statutory Bail-in or the implementation of the Contractual Bail-in with respect to the Certificates will be an event of default or otherwise constitute non-performance of a contractual obligation, or entitle the Certificate Holder to any remedies (including equitable remedies) which are hereby expressly waived.

The matters set forth in this Condition shall be exhaustive on the foregoing matters to the exclusion of any other agreements, arrangements or understandings between the Issuer, the Guarantor and each Certificate Holder. No expenses necessary for the procedures under this Condition, including, but not limited to, those incurred by the Issuer and the Guarantor, shall be borne by any Certificate Holder.

For the purposes of this Condition:

"**Amounts Due**" means any amounts due by the Issuer under the Certificates.

"**Bail-In Power**" means any statutory cancellation, write-down and/or conversion power existing from time to time under any laws, regulations, rules or requirements relating to the resolution of banks, banking group companies, credit institutions and/or investment firms, including but not limited to any such laws, regulations, rules or requirements that are implemented, adopted or enacted within the context of a European Union directive or regulation of the European Parliament and of the Council establishing a framework for the recovery and resolution of credit institutions and investment firms, or any other applicable laws or regulations, as amended, or otherwise, pursuant to which obligations of a bank, banking group company, credit institution or investment firm or any of its affiliates can be reduced, cancelled and/or converted into shares or other securities or obligations of the obligor or any other person.

"**MREL**" means the Minimum Requirement for own funds and Eligible Liabilities as defined in Directive 2014/59/EU of the European Parliament and of the Council of 15 May 2014 establishing a framework for the recovery and resolution of credit institutions and investment firms (as amended from time to time).

"**Relevant Resolution Authority**" means any authority with the ability to exercise the Bail-in Power on Societe Generale or SG Issuer as the case may be.

"**Regulator**" means the European Central Bank and any successor or replacement thereto, or other authority having primary responsibility for the prudential oversight and supervision of the Issuer.

2. Certificate Rights and Exercise Expenses

(a) *Certificate Rights*. Every Certificate entitles each Certificate Holder, upon due exercise and on compliance with Condition 4, to payment by the Issuer of the Cash Settlement Amount (as defined below) (if any) in the manner set out in Condition 4.

The "**Cash Settlement Amount**", in respect of each Certificate, shall be an amount payable in the Settlement Currency equal to the Closing Level multiplied by the Notional Amount per Certificate.

The "**Closing Level**", in respect of each Certificate, shall be an amount payable in the Settlement Currency equal to:

$$\left(\frac{\text{Final Reference Level} \times \text{Final Exchange Rate}}{\text{Initial Reference Level} \times \text{Initial Exchange Rate}} - \text{Strike Level}\right) \times \text{Hedging Fee Factor}$$

If the Issuer determines, in its sole discretion, that on the Valuation Date or any Observation Date a Market Disruption Event has occurred, then that Valuation Date or Observation Date shall be postponed until the first succeeding Exchange Business Day or Underlying Stock Business Day, as the case may be, on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the five Exchange Business Days or Underlying Stock Business Days, as the case may be, immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date or an Observation Date. In that case:-

(i) that fifth Exchange Business Day or Underlying Stock Business Day, as the case may be, shall be deemed to be the Valuation Date or the Observation Date notwithstanding the Market Disruption Event; and

(ii) the Issuer shall determine the Final Reference Level or the relevant closing level on the basis of its good faith estimate of the Final Reference Level or the relevant closing level that would have prevailed on that fifth Exchange Business Day or Underlying Stock Business Day, as the case may be, but for the Market Disruption Event.

"**Market Disruption Event**" means the occurrence or existence of (i) any suspension of trading on the Relevant Stock Exchange of the Underlying Stock requested by the Company if that suspension is, in the determination of the Issuer, material, (ii) any suspension of or limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of movements in price exceeding limits permitted by the Relevant Stock Exchange or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) on the Relevant Stock Exchange in the Underlying Stock if that suspension or limitation is, in the determination of the Issuer, material, or (iii) the closing of the Relevant Stock Exchange or a disruption to trading on the Relevant Stock Exchange if that disruption is, in the determination of the Issuer, material as a result of the occurrence of any act of God, war, riot, public disorder, explosion or terrorism.

(b) *Exercise Expenses*. Certificate Holders will be required to pay all charges which are incurred in respect of the exercise of the Certificates (the "**Exercise Expenses**"). An amount equivalent to the Exercise Expenses will be deducted by the Issuer from the

Cash Settlement Amount in accordance with Condition 4. Notwithstanding the foregoing, the Certificate Holders shall account to the Issuer on demand for any Exercise Expenses to the extent that they were not or could not be deducted from the Cash Settlement Amount prior to the date of payment of the Cash Settlement Amount to the Certificate Holders in accordance with Condition 4.

(c) No Rights. The purchase of Certificates does not confer on the Certificate Holders any right (whether in respect of voting, dividend or other distributions in respect of the Underlying Stock or otherwise) which the holder of an Underlying Stock may have.

3. Expiry Date

Unless automatically exercised in accordance with Condition 4(b), the Certificates shall be deemed to expire at 10:00 a.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day (as defined below), the immediately preceding Business Day.

4. Exercise of Certificates

(a) *Exercise*. Certificates may only be exercised on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day, in accordance with Condition 4(b).

(b) *Automatic Exercise*. Certificate Holders shall not be required to deliver an exercise notice. Exercise of Certificates shall be determined by whether the Cash Settlement Amount (less any Exercise Expenses) is positive. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Certificates shall be deemed to have been automatically exercised at 10:00 a.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day. The Cash Settlement Amount less the Exercise Expenses in respect of the Certificates shall be paid in the manner set out in Condition 4(c) below. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero, all Certificates shall be deemed to have expired at 10:00 a.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day, and Certificate Holders shall not be entitled to receive any payment from the Issuer in respect of the Certificates.

(c) *Settlement*. In respect of Certificates which are automatically exercised in accordance with Condition 4(b), the Issuer will pay to the relevant Certificate Holder the Cash Settlement Amount (if any) in the Settlement Currency. The aggregate Cash Settlement Amount (less any Exercise Expenses) shall be despatched as soon as practicable and no later than five Business Days following the Expiry Date by way of crossed cheque or other payment in immediately available funds drawn in favour of the Certificate Holder only (or, in the case of joint Certificate Holders, the first-named Certificate Holder) appearing in the records maintained by CDP. Any payment made pursuant to this Condition 4(c) shall be delivered at the risk and expense of the Certificate Holder and posted to the Certificate Holder’s address appearing in the records maintained by CDP (or, in the case of joint Certificate Holders, to the address of the first-named Certificate Holder appearing in the records maintained by CDP). If the Cash Settlement Amount is equal to or less than the determined Exercise Expenses, no amount is payable.

(d) *CDP not liable*. CDP shall not be liable to any Certificate Holder with respect to any action taken or omitted to be taken by the Issuer or the Warrant Agent in connection with the exercise of the Certificates or otherwise pursuant to or in connection with these Conditions.

(e) *Business Day*. In these Conditions, a "**Business Day**" shall be a day on which the SGX-ST is open for dealings in Singapore during its normal trading hours and banks are open for business in Singapore.

5. Warrant Agent

(a) *Warrant Agent*. The Issuer reserves the right, subject to the appointment of a successor, at any time to vary or terminate the appointment of the Warrant Agent and to appoint another Warrant Agent provided that it will at all times maintain a Warrant Agent which, so long as the Certificates are listed on the SGX-ST, shall be in Singapore. Notice of any such termination or appointment and of any change in the specified office of the Warrant Agent will be given to the Certificate Holders in accordance with Condition 9.

(b) *Agent of Issuer*. The Warrant Agent will be acting as agent of the Issuer and will not assume any obligation or duty to or any relationship of agency or trust for the Certificate Holders. All determinations and calculations by the Warrant Agent under these Conditions shall (save in the case of manifest error) be final and binding on the Issuer and the Certificate Holders.

6. Adjustments

(a) *Potential Adjustment Event*. Following the declaration by a Company of the terms of any Potential Adjustment Event (as defined below), the Issuer will determine whether such Potential Adjustment Event has a dilutive or concentrative or other effect on the theoretical value of the Underlying Stock and, if so, will (i) make the corresponding adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate to account for that dilutive or concentrative or other effect, and (ii) determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of such Potential Adjustment Event made by an exchange on which options or futures contracts on the Underlying Stock are traded.

(b) *Definitions*. "**Potential Adjustment Event**" means any of the following:

(i) a subdivision, consolidation, reclassification or other restructuring of the Underlying Stock (excluding a Merger Event) or a free distribution or dividend of any such Underlying Stock to existing holders by way of bonus, capitalisation or similar issue;

(ii) a distribution or dividend to existing holders of the Underlying Stock of (1) such Underlying Stock, or (2) other share capital or securities granting the right to payment of dividends and/or the proceeds of liquidation of the Company equally or proportionately with such payments to holders of such Underlying Stock, or (3) share capital or other securities of another issuer acquired by the Company as a result of a "spin-off" or other similar transaction, or (4) any other type of securities, rights or warrants or other assets, in any case for payment (in cash or otherwise) at less than the prevailing market price as determined by the Issuer;

(iii) an extraordinary dividend;

(iv) a call by the Company in respect of the Underlying Stock that is not fully paid;

(v) a repurchase by the Company of the Underlying Stock whether out of profits or capital and whether the consideration for such repurchase is cash, securities or otherwise;

(vi) with respect to a Company an event that results in any shareholder rights pursuant to a shareholder rights agreement or other plan or arrangement of the type commonly referred to as a “poison pill” being distributed, or becoming separated from shares of common stock or other shares of the capital stock of such Company (provided that any adjustment effected as a result of such an event shall be readjusted upon any redemption of such rights); or

(vii) any other event that may have, in the opinion of the Issuer, a dilutive or concentrative or other effect on the theoretical value of the Underlying Stock.

(c) *Merger Event, Tender Offer, Nationalisation and Insolvency*. If a Merger Event, Tender Offer, Nationalisation or Insolvency occurs in relation to the Underlying Stock, the Issuer may take any action described below:

(i) determine the appropriate adjustment, if any, to be made to any one or more of the Conditions to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, and determine the effective date of that adjustment. The Issuer may, but need not, determine the appropriate adjustment by reference to the adjustment in respect of the Merger Event, Tender Offer, Nationalisation or Insolvency made by an options exchange to options on the Underlying Stock traded on that options exchange;

(ii) cancel the Certificates by giving notice to the Certificate Holders in accordance with Condition 9. If the Certificates are so cancelled, the Issuer will pay an amount to each Certificate Holder in respect of each Certificate held by such Certificate Holder which amount shall be the fair market value of a Certificate taking into account the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, less the cost to the Issuer and/or any of its affiliates of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its reasonable discretion. Payment will be made in such manner as shall be notified to the Certificate Holders in accordance with Condition 9; or

(iii) following any adjustment to the settlement terms of options on the Underlying Stock on such exchange(s) or trading system(s) or quotation system(s) as the Issuer in its reasonable discretion shall select (the “**Option Reference Source**”) make a corresponding adjustment to any one or more of the Conditions, which adjustment will be effective as of the date determined by the Issuer to be the effective date of the corresponding adjustment made by the Option Reference Source. If options on the Underlying Stock are not traded on the Option Reference Source, the Issuer will make such adjustment, if any, to any one or more of the Conditions as the Issuer determines appropriate, with reference to the rules and precedents (if any) set by the Option Reference Source, to account for the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, that in the determination of the Issuer would have given rise to an adjustment by the Option Reference Source if such options were so traded.

Once the Issuer determines that its proposed course of action in connection with a Merger Event, Tender Offer, Nationalisation or Insolvency, it shall give notice to the Certificate Holders in accordance with Condition 9 stating the occurrence of the Merger Event, Tender Offer, Nationalisation or Insolvency, as the case may be, giving details thereof and the action proposed to be taken in relation thereto. Certificate Holders should be aware that due to the nature of such events, the Issuer will not make an immediate determination of its proposed course of action or adjustment upon the announcement or occurrence of a Merger Event, Tender Offer, Nationalisation or Insolvency.

(d) *Definitions*. "**Insolvency**" means that by reason of the voluntary or involuntary liquidation, bankruptcy, insolvency, dissolution or winding-up of or any analogous proceeding affecting a Company (i) all the Underlying Stock of that Company is required to be transferred to a trustee, liquidator or other similar official or (ii) holders of the Underlying Stock of that Company become legally prohibited from transferring them. "**Merger Date**" means the closing date of a Merger Event or, where a closing date cannot be determined under the local law applicable to such Merger Event, such other date as determined by the Issuer. "**Merger Event**" means, in respect of the Underlying Stock, any (i) reclassification or change of such Underlying Stock that results in a transfer of or an irrevocable commitment to transfer all of such Underlying Stock outstanding to another entity or person, (ii) consolidation, amalgamation, merger or binding share exchange of a Company with or into another entity or person (other than a consolidation, amalgamation, merger or binding share exchange in which such Company is the continuing entity and which does not result in reclassification or change of all of such Underlying Stock outstanding), (iii) takeover offer, exchange offer, solicitation, proposal or other event by any entity or person to purchase or otherwise obtain 100 per cent. of the outstanding Underlying Stock of the Company that results in a transfer of or an irrevocable commitment to transfer all such Underlying Stock (other than such Underlying Stock owned or controlled by such other entity or person), or (iv) consolidation, amalgamation, merger or binding share exchange of the Company or its subsidiaries with or into another entity in which the Company is the continuing entity and which does not result in a reclassification or change of all such Underlying Stock outstanding but results in the outstanding Underlying Stock (other than Underlying Stock owned or controlled by such other entity) immediately prior to such event collectively representing less than 50 per cent. of the outstanding Underlying Stock immediately following such event, in each case if the Merger Date is on or before the Valuation Date. "**Nationalisation**" means that all the Underlying Stock or all or substantially all of the assets of a Company are nationalised, expropriated or are otherwise required to be transferred to any governmental agency, authority, entity or instrumentality thereof. "**Tender Offer**" means a takeover offer, tender offer, exchange offer, solicitation, proposal or other event by any entity or person that results in such entity or person purchasing, or otherwise obtaining or having the right to obtain, by conversion or other means, greater than 10 per cent. and less than 100 per cent. of the outstanding voting shares of the Company, as determined by the Issuer, based upon the making of filings with governmental or self-regulatory agencies or such other information as the Issuer deems relevant.

(e) *Other Adjustments*. Except as provided in this Condition 6 and Conditions 10 and 12, adjustments will not be made in any other circumstances, subject to the right reserved by the Issuer (such right to be exercised in the Issuer's sole discretion and without any obligation whatsoever) to make such adjustments and amendments as it believes appropriate in circumstances where an event or events occur which it believes in its sole discretion (and notwithstanding any prior adjustment made pursuant to the above) should, in the context of the issue of the Certificates and the obligations of the Issuer, give rise to such adjustment or, as the case may be, amendment provided that such adjustment or, as the case may be, amendment is considered by the Issuer not to be materially prejudicial to the Certificate Holders generally (without considering the circumstances of any individual Certificate Holder or the tax or other consequences of such adjustment or amendment in any particular jurisdiction).

(f) *Notice of Adjustments*. All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Certificate Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 9. For the avoidance of doubt, no notice will be given if the Issuer determines that adjustments will not be made.

7. Purchases

The Issuer, the Guarantor or any of their respective subsidiaries may at any time purchase Certificates at any price in the open market or by tender or by private treaty. Any Certificates so purchased may be held or resold or surrendered for cancellation.

8. Meetings of Certificate Holders; Modification

(a) *Meetings of Certificate Holders*. The Master Warrant Agent Agreement or Warrant Agent Agreement contains provisions for convening meetings of the Certificate Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Master Warrant Agent Agreement or Warrant Agent Agreement) of a modification of the provisions of the Certificates or of the Master Warrant Agent Agreement or Warrant Agent Agreement.

At least 21 days' notice (exclusive of the day on which the notice is given and of the day on which the meeting is held) specifying the date, time and place of the meeting shall be given to the Certificate Holders.

Such a meeting may be convened by the Issuer or by Certificate Holders holding not less than ten per cent. of the Certificates for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Certificates for the time being remaining unexercised, or at any adjourned meeting, two or more persons being or representing Certificate Holders whatever the number of Certificates so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Certificate Holders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Certificate Holders shall be binding on all the Certificate Holders whether or not they are present at the meeting. Resolutions can be passed in writing if passed unanimously.

(b) *Modification*. The Issuer may, without the consent of the Certificate Holders, effect (i) any modification of the provisions of the Certificates or the Master Instrument which is not materially prejudicial to the interests of the Certificate Holders or (ii) any modification of the provisions of the Certificates or the Master Instrument which is of a formal, minor or technical nature, which is made to correct an obvious error or which is necessary in order to comply with mandatory provisions of Singapore law. Any such modification shall be binding on the Certificate Holders and shall be notified to them by the Warrant Agent before the date such modification becomes effective or as soon as practicable thereafter in accordance with Condition 9.

9. Notices

(a) *Documents.* All cheques and other documents required or permitted by these Conditions to be sent to a Certificate Holder or to which a Certificate Holder is entitled or which the Issuer shall have agreed to deliver to a Certificate Holder may be delivered by hand or sent by post addressed to the Certificate Holder at his address appearing in the records maintained by CDP or, in the case of joint Certificate Holders, addressed to the joint holder first named at his address appearing in the records maintained by CDP, and airmail post shall be used if that address is not in Singapore. All documents delivered or sent in accordance with this paragraph shall be delivered or sent at the risk of the relevant Certificate Holder.

(b) *Notices.* All notices to Certificate Holders will be validly given if published in English on the web-site of the SGX-ST. Such notices shall be deemed to have been given on the date of the first such publication. If publication on the web-site of the SGX-ST is not practicable, notice will be given in such other manner as the Issuer may determine. The Issuer shall, at least one month prior to the expiry of any Certificate, give notice of the date of expiry of such Certificate in the manner prescribed above.

10. Liquidation

In the event of a liquidation or dissolution of the Company or the appointment of a liquidator (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, all unexercised Certificates will lapse and shall cease to be valid for any purpose, in the case of voluntary liquidation, on the effective date of the relevant resolution and, in the case of an involuntary liquidation or dissolution, on the date of the relevant court order or, in the case of the appointment of a liquidator (including a provisional liquidator) or receiver or judicial manager or trustee or administrator or analogous person under Singapore or other applicable law in respect of the whole or substantially the whole of its undertaking, property or assets, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of law. In the event of the voluntary liquidation of the Company, the Issuer shall make such adjustments or amendments as it reasonably believes are appropriate in the circumstances.

11. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Certificate Holders, to create and issue further certificates so as to form a single series with the Certificates, subject to the approval of the SGX-ST.

12. Delisting

(a) Delisting. If at any time, the Underlying Stock ceases to be listed on the Relevant Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments and amendments to the rights attaching to the Certificates as it shall, in its absolute discretion, consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Certificate Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Certificate Holder or the tax or other consequences that may result in any particular jurisdiction).

(b) Issuer's Determination. The Issuer shall determine, in its absolute discretion, any adjustment or amendment and its determination shall be conclusive and binding on the Certificate Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Certificate Holders in accordance with Condition 9 as soon as practicable after they are determined.

13. Early Termination

(a) *Early Termination for Illegality and Force Majeure, etc.* If the Issuer determines that a Regulatory Event (as defined below) has occurred and, for reasons beyond its control, the performance of its obligations under the Certificates has become illegal or impractical in whole or in part for any reason, or the Issuer determines that, for reasons beyond its control, it is no longer legal or practical for it to maintain its hedging arrangements with respect to the Certificates for any reason, the Issuer may in its discretion and without obligation terminate the Certificates early in accordance with Condition 13(d).

Should any one or more of the provisions contained in the Conditions be or become invalid, the validity of the remaining provisions shall not in any way be affected thereby.

For the purposes of this Condition:

"**Regulatory Event**" means, following the occurrence of a Change in Law (as defined below) with respect to the Issuer and/or Société Générale as Guarantor or in any other capacity (including without limitation as hedging counterparty of the Issuer, market maker of the Certificates or direct or indirect shareholder or sponsor of the Issuer) or any of its affiliates involved in the issuer of the Certificates (hereafter the "**Relevant Affiliates**" and each of the Issuer, Société Générale and the Relevant Affiliates, a "**Relevant Entity**") that, after the Certificates have been issued, (i) any Relevant Entity would incur a materially increased (as compared with circumstances existing prior to such event) amount of tax, duty, liability, penalty, expense, fee, cost or regulatory capital charge however defined or collateral requirements for performing its obligations under the Certificates or hedging the Issuer's obligations under the Certificates, including, without limitation, due to clearing requirements of, or the absence of, clearing of the transactions entered into in connection with the issue of, or hedging the Issuer's obligation under, the Certificates, (ii) it is or will become for any Relevant Entity impracticable, impossible (in each case, after using commercially reasonable efforts), unlawful, illegal or otherwise prohibited or contrary, in whole or in part, under any law, regulation, rule, judgement, order or directive of any governmental, administrative or judicial authority, or power, applicable to such Relevant Entity (a) to hold, acquire, issue, reissue, substitute, maintain, settle, or as the case may be, guarantee, the Certificates, (b) to acquire, hold, sponsor or dispose of any asset(s) (or any interest thereof) of any other transaction(s) such Relevant Entity may use in connection with the issue of the Certificates or to hedge the Issuer's obligations under the Certificates, (c) to perform obligations in connection with, the Certificates or any contractual arrangement entered into between the Issuer and Société Générale or any Relevant Affiliate (including without limitation to hedge the

Issuer's obligations under the Certificates) or (d) to hold, acquire, maintain, increase, substitute or redeem all or a substantial part of its direct or indirect shareholding in the Issuer's capital or the capital of any Relevant Affiliate or to directly or indirectly sponsor the Issuer or any Relevant Affiliate, or (iii) there is or may be a material adverse effect on a Relevant Entity in connection with the issue of the Certificates.

"**Change in law**" means (i) the adoption, enactment, promulgation, execution or ratification of any applicable new law, regulation or rule (including, without limitation, any applicable tax law, regulation or rule) after the Certificates have been issued, (ii) the implementation or application of any applicable law, regulation or rule (including, without limitation, any applicable tax law, regulation or rule) already in force when the Certificates have been issued but in respect of which the manner of its implementation or application was not known or unclear at the time, or (iii) the change of any applicable law, regulation or rule existing when the Certificates are issued, or the change in the interpretation or application or practice relating thereto, existing when the Certificates are issued of any applicable law, regulation or rule, by any competent court, tribunal, regulatory authority or any other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any additional or alternative court, tribunal, authority or entity, to that existing when the Certificates are issued).

(b) *Early Termination for Holding Limit Event*. The Issuer may in its discretion and without obligation terminate the Certificates early in accordance with Condition 13(d) where a Holding Limit Event (as defined below) occurs.

For the purposes of this Condition:

"**Holding Limit Event**" means, assuming the investor is the Issuer and/or any of its affiliates, the Issuer together with its affiliates, in aggregate hold, an interest in the Underlying Stock, constituting or likely to constitute (directly or indirectly) ownership, control or the power to vote a percentage of any class of voting securities of the Underlying Stock, of the Underlying Stock in excess of a percentage permitted or advisable, as determined by the Issuer, for the purpose of its compliance with the Bank Holding Company Act of 1956 as amended by Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Volcker Rule), including any requests, regulations, rules, guidelines or directives made by the relevant governmental authority under, or issued by the relevant governmental authority in connection with, such statutes.

(c) *Early Termination for other reasons.* The Issuer reserves the right (such right to be exercised in the Issuer's sole and unfettered discretion and without any obligation whatsoever) to terminate the Certificates in accordance with Condition 13(d) where an event or events occur which it believes in its sole discretion should, in the context of the issue of the Certificates and the obligations of the Issuer, give rise to such termination provided that such termination (i) is considered by the Issuer not to be materially prejudicial to the interests of Certificate Holders generally (without considering the circumstances of any individual Certificate Holder or the tax or other consequences of such termination in any particular jurisdiction); or (ii) is otherwise considered by the Issuer to be appropriate and such termination is approved by the SGX-ST.

(d) *Termination*. If the Issuer terminates the Certificates early, then the Issuer will give notice to the Certificate Holders in accordance with Condition 9. The Issuer will, if and to the extent permitted by applicable law, pay an amount to each Certificate Holder in respect of each Certificate held by such holder equal to the fair market value of a Certificate notwithstanding such illegality, impracticality or the relevant event less the cost to the Issuer of unwinding any underlying related hedging arrangements, all as determined by the Issuer in its sole and absolute discretion. Payment will be made in such manner as shall be notified to the Certificate Holders in accordance with Condition 9.

14. Governing Law

The Certificates, the Master Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement will be governed by and construed in accordance with Singapore law. The Issuer and the Guarantor and each Certificate Holder (by its purchase of the Certificates) shall be deemed to have submitted for all purposes in connection with the Certificates, the Master Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement to the non-exclusive jurisdiction of the courts of Singapore. The Guarantee shall be governed by and construed in accordance with Singapore law.

15. Prescription

Claims against the Issuer for payment of any amount in respect of the Certificates will become void unless made within six years of the Expiry Date and, thereafter, any sums payable in respect of such Certificates shall be forfeited and shall revert to the Issuer.

16. Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore

Unless otherwise provided in the Global Warrant, the Master Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement, a person who is not a party to any contracts made pursuant to the Global Warrant, the Master Instrument and the Master Warrant Agent Agreement or Warrant Agent Agreement has no rights under the Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore to enforce any terms of such contracts. Except as expressly provided herein, the consent of any third party is not required for any subsequent agreement by the parties hereto to amend or vary (including any release or compromise of any liability) or terminate such contracts.

SUMMARY OF THE ISSUE

The following is a summary of the issue and should be read in conjunction with, and is qualified by reference to, the other information set out in this document and the Base Listing Document. Terms used in this Summary are defined in the Conditions.

Issuer:	SG Issuer
Company:	Baidu, Inc.
The Certificates:	European Style Cash Settled Short Certificates relating to the Underlying Stock
Number:	10,000,000 Certificates
Form:	The Certificates will be issued subject to, and with the benefit of, a master instrument by way of deed poll dated 19 June 2020 (the "**Master Instrument**") and executed by the Issuer and the Guarantor and a master warrant agent agreement dated 29 May 2017 (the "**Master Warrant Agent Agreement**") and made between the Issuer, the Guarantor and the Warrant Agent.
Cash Settlement Amount:	In respect of each Certificate, is the amount (if positive) equal to: Notional Amount per Certificate x Closing Level
Denominations:	Certificates are represented by a global warrant in respect of all the Certificates.
Exercise:	The Certificates may only be exercised on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day, in a Board Lot or integral multiples thereof. Certificate Holders will not be required to deliver an exercise notice. If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Certificates will be deemed to have been automatically exercised at 10:00 a.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day. The Cash Settlement Amount less the Exercise Expenses in respect of the Certificates shall be paid in the manner set out in Condition 4(c) of the Conditions. In the event the Cash Settlement Amount (less any Exercise Expenses) is zero, all Certificates shall be deemed to have expired at 10:00 a.m. (Singapore time) on the Expiry Date or if the Expiry Date is not a Business Day, the immediately preceding Business Day, and Certificate Holders shall not be entitled to receive any payment from the Issuer in respect of the Certificates.
Exercise and Trading Currency:	SGD
Board Lot:	100 Certificates

Transfers of Certificates:	Certificates may only be transferred in Board Lots (or integral multiples thereof). All transfers in Certificates, in the open market or otherwise, must be effected through a securities account with CDP. Title will pass upon registration of the transfer in the records of CDP.
Listing:	Application has been made to the SGX-ST for permission to deal in and for quotation of the Certificates and the SGX-ST has agreed in principle to grant permission to deal in and for quotation of the Certificates. Issue of the Certificates is conditional on such listing being granted. It is expected that dealings in the Certificates on the SGX-ST will commence on or about 14 May 2021.
Governing Law:	The laws of Singapore
Warrant Agent:	The Central Depository (Pte) Limited 11 North Buona Vista Drive #06-07 The Metropolis Tower 2 Singapore 138589
Further Issues:	Further issues which will form a single series with the Certificates will be permitted, subject to the approval of the SGX-ST.

The above summary is a qualified in its entirety by reference to the detailed information appearing elsewhere in this document and the Base Listing Document.

INFORMATION RELATING TO THE EUROPEAN STYLE CASH SETTLED SHORT CERTIFICATES ON SINGLE EQUITIES

What are European Style Cash Settled Short Certificates on Single Equities?

European style cash settled short certificates on single equities (the "**Certificates**") are structured products relating to the Underlying Stock and the return on a Certificate is linked to the performance of the Leverage Inverse Strategy.

A) Cash Settlement Amount Payable upon the Exercise of the Certificates at Expiry

Upon the exercise of the Certificates at expiry, the Certificate Holders would be paid a Cash Settlement Amount in respect of each Certificate.

The Cash Settlement Amount, in respect of each Certificate, shall be an amount payable in the Settlement Currency equal to the Closing Level multiplied by the Notional Amount per Certificate.

The Closing Level, in respect of each Certificate, shall be an amount payable in the Settlement Currency equal to (1) divided by (2) less (3) subject to any adjustments such as (4), where:

(1) is the Final Reference Level multiplied by the Final Exchange Rate;

(2) is the Initial Reference Level multiplied by the Initial Exchange Rate;

(3) is the Strike Level; and

(4) is the Hedging Fee Factor.

If the Cash Settlement Amount (less any Exercise Expenses) is positive, all Certificates shall be deemed to have been automatically exercised and investors will receive a Cash Settlement Amount. If the Cash Settlement Amount (less any Exercise Expenses) is zero, all Certificates shall be deemed to have expired. Please refer to the section headed "Terms and Conditions of the European Style Cash Settled Long/Short Certificates on Single Equities" for further details on the calculation of the Cash Settlement Amount.

The Certificates are only suitable for investors who believe that the price of the Underlying Stock will decrease and are seeking short-term leveraged inverse exposure to the Underlying Stock.

B) Trading the Certificates before Expiry

If the Certificate Holders want to cash out their investments in the Certificates before the expiry of the Certificates, they may sell the Certificates in the secondary market during the life of the Certificates, and would be subject to the following fees and charges:

(i) <u>For Certificate Holders who trade the Certificates intraday</u>: shall pay normal transaction and brokerage fees for the trading of the Certificates on the SGX-ST, and may be required to pay stamp taxes or other documentary charges in accordance with the laws and practices of the country where the Certificates are transferred; and

(ii) <u>For Certificate Holders who hold the Certificates overnight</u>: in addition to the normal transaction and brokerage fees and applicable stamp taxes, would also be required to bear the Management Fee and Gap Premium as well as certain costs embedded within the Leverage Inverse Strategy including the Stock Borrowing Cost and Rebalancing Cost.

Illustration of the Calculation of Hedging Fee Factor

Hedging Fee Factor	=	Product of the Daily Fees

Daily Fees	=	**Daily Management Fee Adjustment**
		1 – Management Fee x ACT (t-1;t) / 360
		x
		Daily Gap Premium Adjustment
		1 – Gap Premium (t-1) x ACT (t-1;t) / 360

Illustration of the Calculation of Cash Settlement Amount

Cash Settlement Amount = Final Value of Certificates – Strike Level (zero)

		t[7]=0		t=1				t=2				t=i		
Value of Certificates	=	Notional Amount	x	Leverage Inverse Strategy daily performance[8]	x	Daily Fees	x	Leverage Inverse Strategy daily performance	x	Daily Fees	x …	Leverage Inverse Strategy Daily performance	x	Daily Fees

		t=0		**Product of the daily Leverage Inverse Strategy Performance**				**Product of the Daily Fees (Hedging Fee Factor)**		
Value of Certificates	=	Notional Amount	x	Leverage Inverse Strategy daily performance	x	Leverage Inverse Strategy daily performance	x	Daily Fees	x	Daily Fees

		t=0				
Final Value of Certificates	=	Notional Amount	x	Final Reference Level x Final Exchange Rate ÷ Initial Reference Level x Initial Exchange Rate	x	Hedging Fee Factor

Illustration of the applicable fees and charges for an intraday trading scenario

Hedging Fee is implemented overnight in the price of the Certificate. As a consequence, when trading intraday, investors will not bear any Hedging Fee.

Investors will only support bid/ask costs, which are the difference between the price at which the Designated Market Maker purchases (bid) and sells (ask) the Certificate at any point of time.

[7] "t" refers to "**Observation Date**" which means each Underlying Stock Business Day (subject to Market Disruption Event) from (and including) the Underlying Stock Business Day immediately preceding the Expected Listing Date to the Valuation Date.

[8] Leverage Inverse Strategy daily performance is computed as the Leverage Inverse Strategy Closing Level on Business Day (t) divided by the Leverage Inverse Strategy Closing Level on Business Day (t-1).

Example of Calculation of Hedging Fee Factor and Cash Settlement Amount

The example is purely hypothetical. We include the example to illustrate how the Certificates work, and you MUST NOT rely on them as any indication of the actual return or what the payout on the Certificates might actually be. The example also assumes a product which expires 16 days after listing date, to illustrate the daily calculation of price, costs and fees from listing date to expiry date.

Assuming an investor purchases the following Certificates at the Issue Price:

Underlying Stock:	Class A ordinary shares of Baidu, Inc.
Expected Listing Date:	**03/07/2018**
Expiry Date:	**18/07/2018**
Initial Reference Level:	**1,000**
Initial Exchange Rate:	**1**
Final Reference Level:	**1,200**
Final Exchange Rate:	**1**
Issue Price:	**1.20 SGD**
Notional Amount per Certificate:	**1.20 SGD**
Management Fee (p.a.):	**0.40%**
Gap Premium (p.a.):	**8.00%**
Strike Level:	Zero

Hedging Fee Factor

Hedging Fee Factor on the n**th** Underlying Stock Business Day after issuance of Certificate ("HFF (n)") is calculated as follows:

HFF(0) = 100%

On Next Calendar Day (assuming it is an Underlying Stock Business Day):

$$\mathrm{HFF}\ (1)\ =\ \mathrm{HFF}\ (0)\ \times \left(1 - \mathrm{Management\ Fee}\ \times \frac{\mathrm{ACT}\ (\mathrm{t}-1;\mathrm{t})}{360}\right) \times \left(1 - \mathrm{Gap\ Premium}\ \times \frac{\mathrm{ACT}\ (\mathrm{t}-1;\mathrm{t})}{360}\right)$$

$$\mathrm{HFF}\ (1) = 100\% \times \left(1 - 0.40\% \times \frac{1}{360}\right) \times \left(1 - 8.00\% \times \frac{1}{360}\right)$$

$$\mathrm{HFF}\ (1) = 100\% \times 99.9989\% \times 99.9778\% \approx 99.9767\%$$

Assuming 2nd Underlying Stock Business Day falls 3 Calendar Days after 1st Underlying Stock Business Day:

$$\text{HFF}(2) = \text{HFF}(1) \times \left(1 - \text{Management Fee} \times \frac{\text{ACT}(t-1;t)}{360}\right) \times \left(1 - \text{Gap Premium} \times \frac{\text{ACT}(t-1;t)}{360}\right)$$

$$\text{HFF}(2) = 99.9767\% \times \left(1 - 0.40\% \times \frac{3}{360}\right) \times \left(1 - 8.00\% \times \frac{3}{360}\right)$$

$$\text{HFF}(2) = 99.9767\% \times 99.9967\% \times 99.9333\% \approx 99.9067\%$$

The same principle applies to the following Underlying Stock Business Days:

$$\text{HFF}(n) = \text{HFF}(n-1) \times \left(1 - \text{Management Fee} \times \frac{\text{ACT}(t-1;t)}{360}\right) \times \left(1 - \text{Gap Premium} \times \frac{\text{ACT}(t-1;t)}{360}\right)$$

In this example, the Hedging Fee Factor as of the Valuation Date would be equal to 99.6505% as illustrated below:

Date	HFF
3/7/2018	100.0000%
4/7/2018	99.9767%
5/7/2018	99.9533%
6/7/2018	99.9300%
9/7/2018	99.8601%
10/7/2018	99.8368%
11/7/2018	99.8135%
12/7/2018	99.7902%
13/7/2018	99.7669%
16/7/2018	99.6971%
17/7/2018	99.6738%
18/7/2018	99.6505%

Cash Settlement Amount

In this example, the Closing Level and the Cash Settlement Amount would be computed as follows:

Closing Level = [(Final Reference Level x Final Exchange Rate) / (Initial Reference Level x Initial Exchange Rate) – Strike Level] x Hedging Fee Factor

= [(1200 x 1) / (1000 x 1) – 0] x 99.6505%

= 119.58%

Cash Settlement Amount = Closing Level x Notional Amount per Certificate

= 119.58% x 1.20 SGD

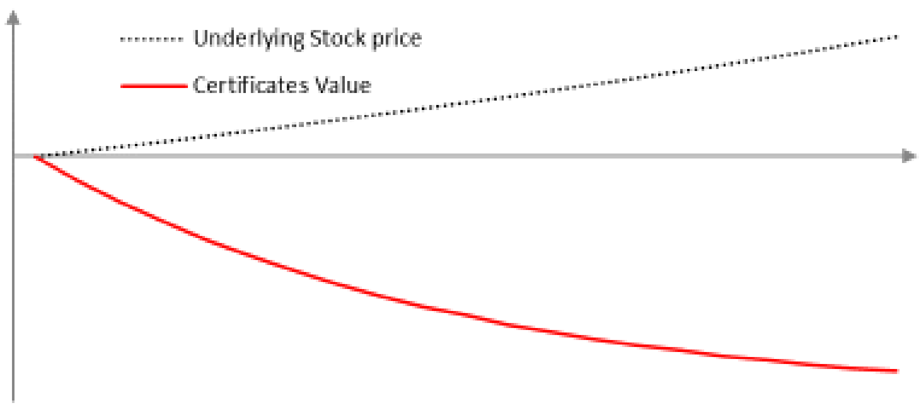
= 1.435 SGD

Illustration on how returns and losses can occur under different scenarios

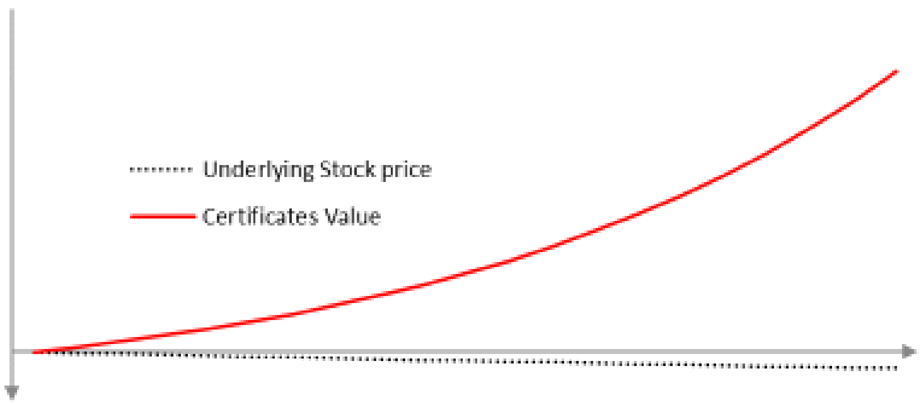
The examples are purely hypothetical and do not take fees and charges payable by investors into consideration. The examples highlight the effect of the Underlying Stock performance on the value of the Certificates and do not take into account the possible influence of fees, exchange rates, dividends, or any other market parameters.

1. Illustrative examples

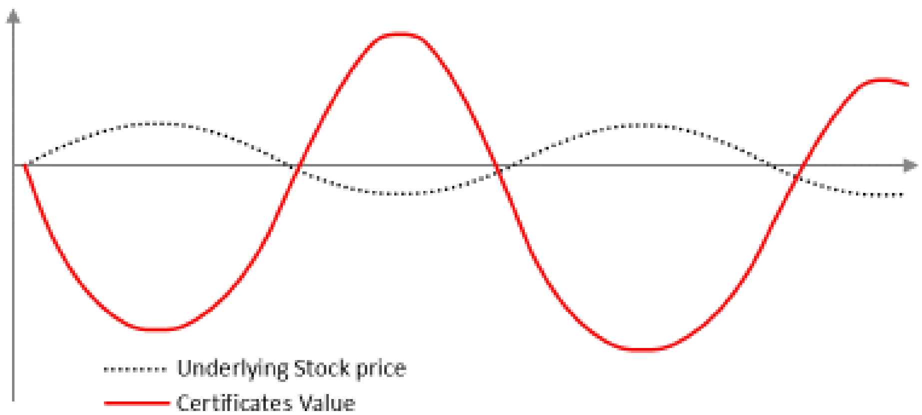
Scenario 1 – Upward Trend



Scenario 2 – Downward Trend



Scenario 3 – Volatile Market



2. <u>Numerical Examples</u>

Scenario 1 – Upward Trend

Underlying Stock						
	Day 0	Day 1	Day 2	Day 3	Day 4	Day 5
Daily return		2.0%	2.0%	2.0%	2.0%	2.0%
Value at end of day	10,000.0	10,200.0	10,404.0	10,612.1	10,824.3	11,040.8
Accumulated Return		2.00%	4.04%	6.12%	8.24%	10.41%

Value of the Certificates						
	Day 0	Day 1	Day 2	Day 3	Day 4	Day 5
Daily return		-10.0%	-10.0%	-10.0%	-10.0%	-10.0%
Price at end of day	1.2	1.08	0.97	0.87	0.79	0.71
Accumulated Return		-10.00%	-19.00%	-27.10%	-34.39%	-40.95%

Scenario 2 – Downward Trend

Underlying Stock						
	Day 0	Day 1	Day 2	Day 3	Day 4	Day 5
Daily return		-2.0%	-2.0%	-2.0%	-2.0%	-2.0%
Value at end of day	10,000.0	9,800.0	9,604.0	9,411.9	9,223.7	9,039.2
Accumulated Return		-2.00%	-3.96%	-5.88%	-7.76%	-9.61%

Value of the Certificates						
	Day 0	Day 1	Day 2	Day 3	Day 4	Day 5
Daily return		10.0%	10.0%	10.0%	10.0%	10.0%
Price at end of day	1.2	1.32	1.45	1.60	1.76	1.93
Accumulated Return		10.00%	21.00%	33.10%	46.41%	61.05%

Scenario 3 – Volatile Market

Underlying Stock						
	Day 0	Day 1	Day 2	Day 3	Day 4	Day 5
Daily return		2.0%	-2.0%	2.0%	-2.0%	2.0%
Value at end of day	10,000.0	10,200.0	9,996.0	10,195.9	9,992.0	10,191.8
Accumulated Return		2.00%	-0.04%	1.96%	-0.08%	1.92%

Value of the Certificates						
	Day 0	Day 1	Day 2	Day 3	Day 4	Day 5
Daily return		-10.0%	10.0%	-10.0%	10.0%	-10.0%
Price at end of day	1.2	1.08	1.19	1.07	1.18	1.06
Accumulated Return		-10.00%	-1.00%	-10.90%	-1.99%	-11.79%

Description of Air Bag Mechanism

The Certificates integrate an “Air Bag Mechanism” which is designed to reduce exposure to the Underlying Stock during extreme market conditions.

When the Air Bag triggers, a 30-minute period starts. This period is divided into two sub-periods:

- Observation Period : during 15 minutes after the Air Bag trigger, the price of the Underlying Stock is observed and its maximum price is recorded; and
- Reset Period: after 15 minutes, the Leverage Inverse Strategy is reset using the maximum price of the Underlying Stock during the Observation Period as the New Observed Price. The New Observed Price replaces the last closing price of the Underlying Stock in order to compute the performance of the Leverage Inverse Strategy, 30 minutes after the Air Bag trigger.

Trading of Certificates is suspended for at least 30 minutes after the Air Bag is triggered. Investors cannot sell or purchase any Certificates during this period.

The performance of the Leverage Inverse Strategy will be the inverse of the Underlying Stock.

Air Bag Mechanism timeline

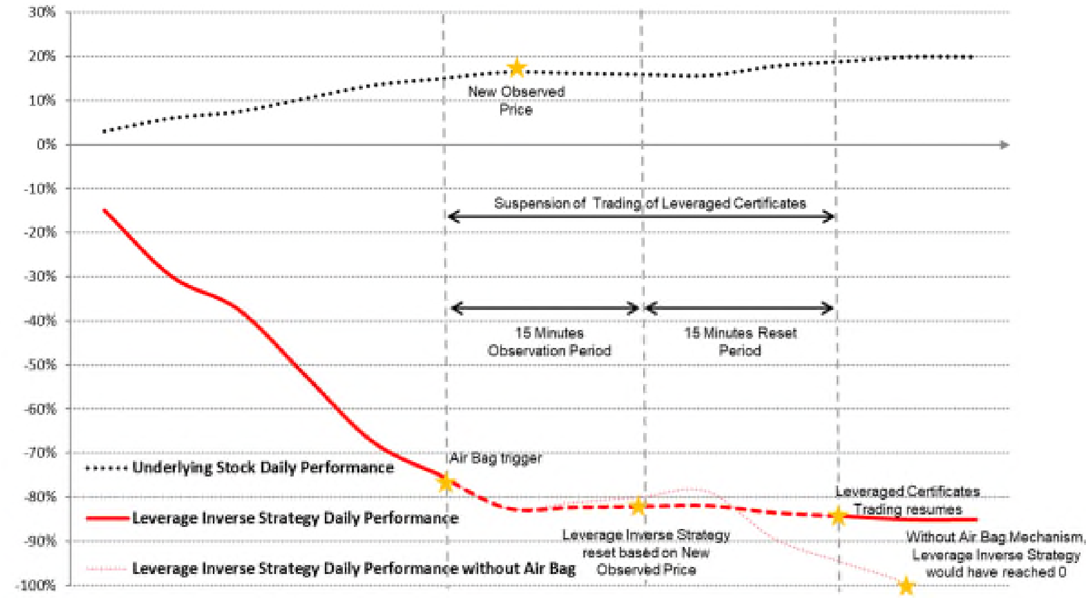
<table>
<tr><th>Air Bag Trigger</th><th>Observation Period</th><th>Resumption of Trading</th></tr>
<tr><td>More than 45 minutes before Market Close</td><td rowspan="5">First 15 minutes after Air Bag Trigger</td><td>Trading resumes the same day between 30 and 45 minutes after Air Bag Trigger</td></tr>
<tr><td>45 minutes before Market Close</td><td rowspan="6">Next trading day at Market Open</td></tr>
<tr><td>30 to 45 minutes before Market Close</td></tr>
<tr><td>30 minutes before Market Close</td></tr>
<tr><td>15 to 30 minutes before Market Close</td></tr>
<tr><td>15 minutes before Market Close</td><td rowspan="2">From Air Bag Trigger to Market Close</td></tr>
<tr><td>Less than 15 minutes before Market Close</td></tr>
</table>

With **Market Close** defined as:

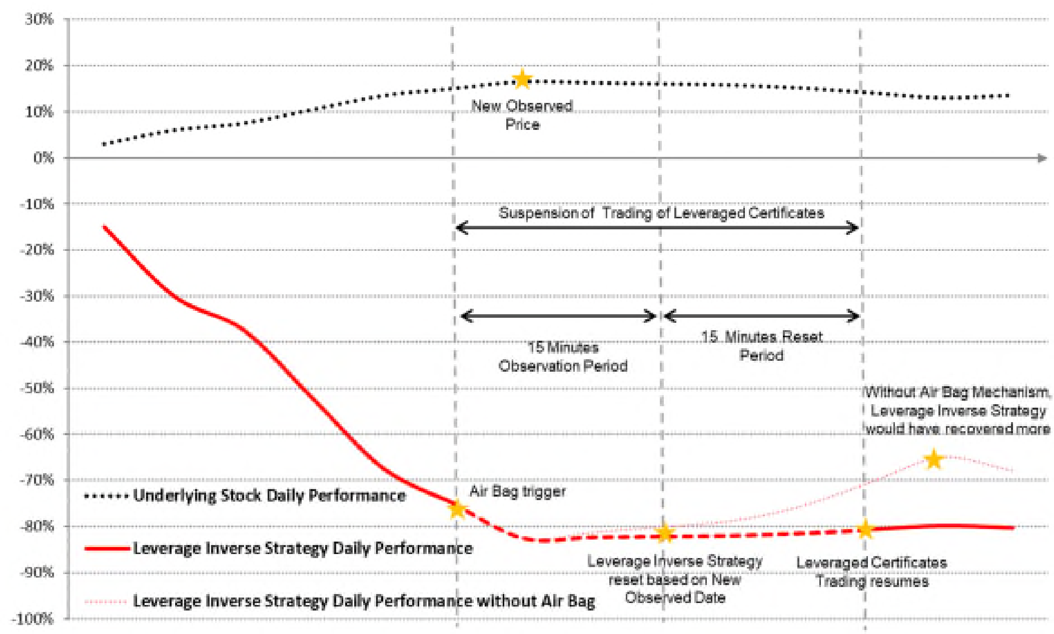
- Underlying Stock closing time with respect to the Observation Period
- The sooner between Underlying Stock closing time and SGX closing time with respect to the Resumption of Trading

Illustrative examples of the Air Bag Mechanism[9]

Scenario 1 – Upward Trend after Air Bag trigger



Scenario 2 – Downward Trend after Air Bag trigger



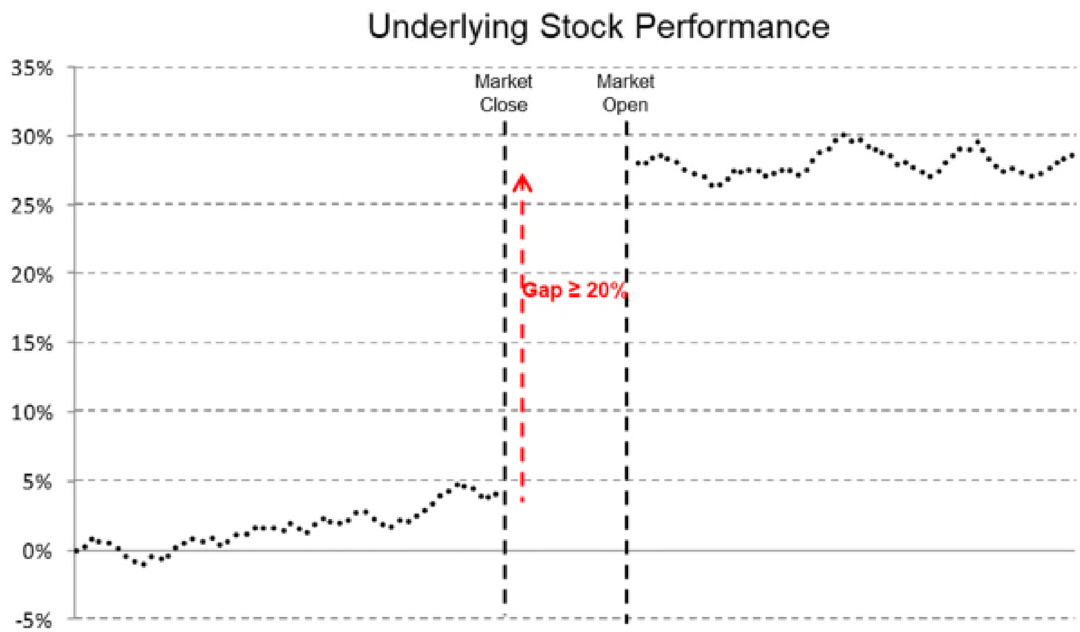
9 The illustrative examples are not exhaustive.

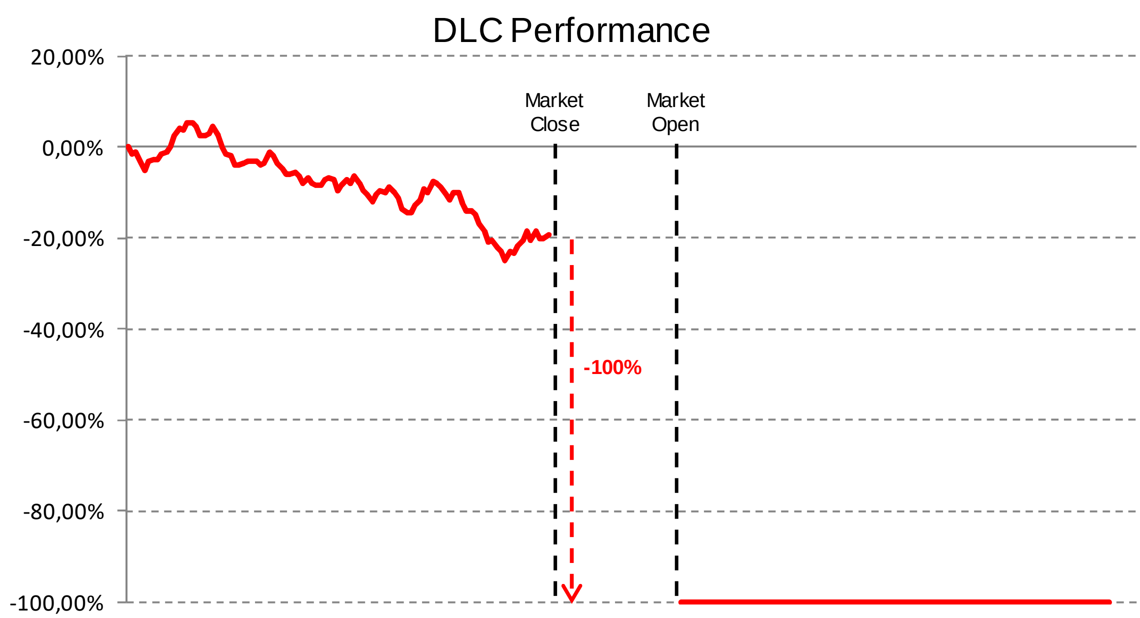
Scenarios where the investor may lose the entire value of the investment

The scenarios below are purely hypothetical and do not take fees and charges payable by investors into consideration. The scenarios highlight cases where the Certificates may lose 100% of their value.

<u>*Scenario 1 – Overnight rise of the Underlying Stock*</u>

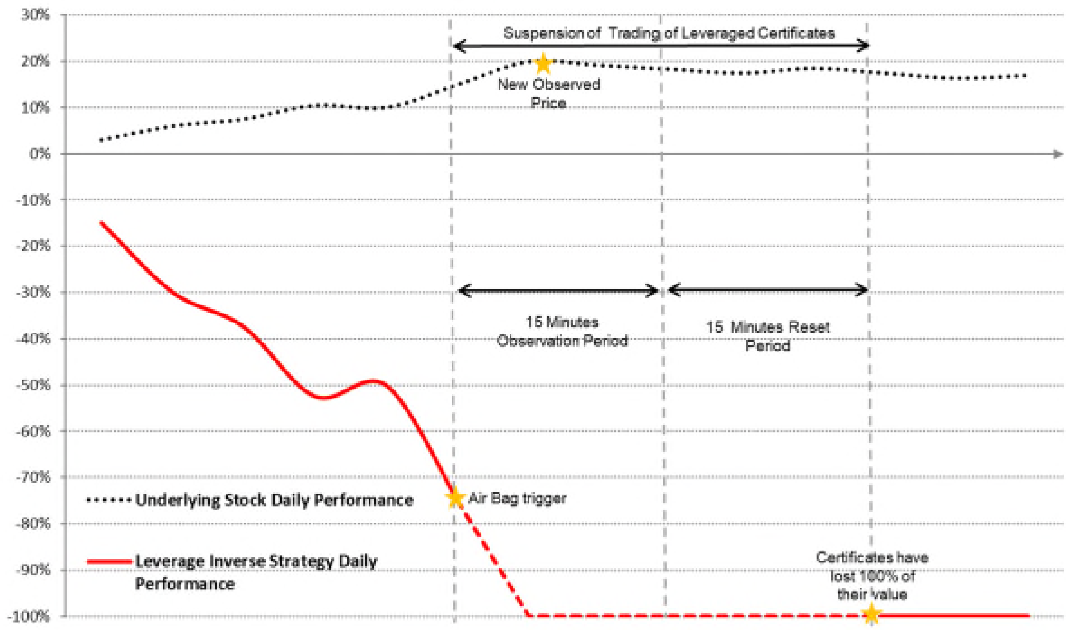
On any business day, the opening price of the Underlying Stock may be higher or lower than the closing price on the previous day. The difference between the previous closing price and the opening price of the Underlying Stock is termed a "gap". If the opening price of the Underlying Stock is 20% or more above the previous day closing price, the Air Bag Mechanism would only be triggered when the market opens the following day, and the Certificates would lose their entire value in such event.





Scenario 2 – Sharp intraday rise of the Underlying Stock

Although the Air Bag Mechanism is designed to reduce the exposure to the Underlying Stock during extreme market conditions, the Certificate can lose 100% of its value in the event the price of the Underlying Stock rises by 20% or more within the 15 minutes Observation Period compared to the reference price, being: (i) if air bag has not been previously triggered on the same day, the previous closing price of the Underlying Stock, or (ii) if one or more air bag have been previously triggered on the same day, the latest New Observed Price. The Certificates would lose their entire value in such event.



Examples and illustrations of adjustments due to certain corporate actions

The examples are purely hypothetical and do not take fees and charges payable by investors into consideration. The examples highlight the effect of corporate actions on the value of the Certificates and do not take into account the possible influence of fees, exchange rates, or any other market parameters.

In the case of any corporate action on the Underlying Stock, the Calculation Agent will, as soon as reasonably practical after it becomes aware of such event, determine whether such corporate action has a dilutive or concentrative effect on the theoretical value of the Underlying Stock, and if so, will (a) calculate the corresponding adjustment, if any, to be made to the elements relating to the Underlying Stock which are used to determine any settlement or payment terms under the Certificates and/or adjust at its discretion any other terms of the Certificates as it determines appropriate to preserve the economic equivalent of the obligations of the Issuer under the Certificates and (b) determine the effective date of such adjustment.

Notwithstanding the foregoing, in the event Observation Date (t) is an ex-date with respect to a corporate action related to the Underlying Stock, the Calculation Agent may, in its sole and absolute discretion, replace the $Rfactor_t$ with respect to such Observation Date (t) by an amount computed according to the following generic formula :

$$Rfactor_t = \left[1 - \frac{Div_t + DivExc_t - M \times R}{\mathrm{S}_{\mathrm{t-1}}}\right] \times \frac{1}{1+M}$$

This formula is provided for indicative purposes and the Calculation Agent may determine that this formula is not appropriate for certain corporate actions and may apply a different formula instead.

Such adjustment of $Rfactor_t$ would affect the Leveraged Return, the Rebalancing Cost, and the Underlying Reference Price used to determine the Intraday Restrike Event. The Air Bag mechanism would not be triggered if the stock price rises by 15% exclusively because of the dilutive effect of a corporate action.

Where:

$\mathrm{DivExc_t}$ is the amount received as an Extraordinary Dividend by a holder of existing Shares for each Share held prior to the Extraordinary Dividend, net of any applicable withholding taxes.

M is the number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe or to receive (positive amount) or the number of existing Shares redeemed or canceled per existing Share (negative amount), as the case may be, resulting from the corporate action.

R is the subscription price per Share (positive amount) or the redemption price per Share (negative amount) including any dividends or other benefits forgone to be subscribe to or to receive (as applicable), or to redeem a Share.

1. <u>Stock split</u>

Assuming the Underlying Stock is subject to a 1 to 2 stock split (i.e. 1 new Share for every 1 existing share):

$\mathrm{S_{t-1}}$ = $100

$\mathrm{S_t}$ = $51

$\mathrm{Div_t} = \$0$

$\mathrm{DivExc_t} = \$0$

M = 1 (i.e. 1 new Shares for 1 existing Share)

R = $0 (no subscription price / redemption price)

$$Rfactor_t = \left[1 - \frac{0 + 0 - 2 \times 0)}{100}\right] \times \frac{1}{1+1} = 50\%$$

As a consequence:

$$\mathrm{LR}_{t-1,t} = \text{Leverage} \times \left(\frac{S_t}{S_{t-1} \times Rfactor_t} - 1\right) = -5 \times \left(\frac{51}{100 \times 50\%} - 1\right) = -10\%$$

S_{t-1}	$S_{t-1} \times Rfactor_t$	S_t	Adjusted Underlying Stock Performance
100	50	51	2%

Value of the Certificate (t-1)	Value of the Certificate (t)	Certificates' performance (excluding any cost and fees)
1.20	1.08	-10%

In such case an Intraday Restrike Event would occur if the Underlying Stock price rises to $57.5, which is 15% above$50, the Underlying Stock Reference Price.

2. <u>Share Consolidation</u>

Assuming the Underlying Stock is subject to a 2 to 1 share consolidation (i.e. 1 Share canceled for every 2 existing Shares):

S_{t-1} = $100

S_t = $202

$\mathrm{Div}_t = \$0$

$\mathrm{DivExc}_t = \$0$

M = -0.5 (i.e. 0.5 Shares canceled for each 1 existing Share)

R = $0 (no subscription price / redemption price)

$$Rfactor_t = \left[1 - \frac{0 + 0 - (-0.5) \times 0)}{100}\right] \times \frac{1}{1+(-0.5)} = 200\%$$

As a consequence:

$$\mathrm{LR}_{t-1,t} = \text{Leverage} \times \left(\frac{S_t}{S_{t-1} \times Rfactor_t} - 1\right) = -5 \times \left(\frac{202}{100 \times 200\%} - 1\right) = -5\%$$

S_{t-1}	$S_{t-1} \times Rfactor_t$	S_t	Adjusted Underlying

			Stock Performance
100	200	202	1%

Value of the Certificate (t-1)	Value of the Certificate (t)	Certificates' performance (excluding any cost and fees)
1.20	1.14	-5%

In such case an Intraday Restrike Event would occur if the Underlying Stock price rises to $230, which is 15% above $200, the Underlying Stock Reference Price.

3. <u>Rights Issues</u>

Assuming there is a rights issue with respect to the Underlying Stock, with a right to receive 1 new Share for every 2 existing Shares, for a subscription price of $40.

$\mathrm{S}_{\mathrm{t}-1}$ = $100

S_{t} = $84

$\mathrm{Div}_{\mathrm{t}} = \$0$

$\mathrm{DivExc}_{\mathrm{t}} = \$0$

R = $40 (i.e. subscription price of $40)

M = 0.5 (i.e. 1 new share for every 2 existing shares)

$$Rfactor_t = \left[1 - \frac{0 + 0 - 0.5 \times 40}{100}\right] \times \frac{1}{1 + 0.5} = 80\%$$

As a consequence:

$$\mathrm{LR}_{\mathrm{t}-1,\mathrm{t}} = \mathrm{Leverage} \times \left(\frac{\mathrm{S}_{\mathrm{t}}}{\mathrm{S}_{\mathrm{t}-1} \times Rfactor_t} - 1\right) = -5 \times \left(\frac{84}{100 \times 80\%} - 1\right) = -25\%$$

$\mathrm{S}_{\mathrm{t}-1}$	$\mathrm{S}_{\mathrm{t}-1} \times Rfactor_t$	S_{t}	Adjusted Underlying Stock Performance
100	80	84	5%

Value of the Certificate (t-1)	Value of the Certificate (t)	Certificates' performance (excluding any cost and fees)
1.20	0.90	-25%

In such case an Intraday Restrike Event would occur if the Underlying Stock price rises to $92, which is 15% above $80, the Underlying Stock Reference Price.

4. <u>Bonus Issues</u>

Assuming there is a bonus issue with respect to the Underlying Stock, where shareholders receive 1 bonus share for 5 existing shares:

S_{t-1} = \$100

S_t = \$85

$\mathrm{Div}_t = \$0$

$\mathrm{DivExc}_t = \$0$

R = \$0

M = 0.2 (i.e. 1 new share for 5 existing shares)

$$Rfactor_t = \left[1 - \frac{0 + 0 - 0.2 \times 0}{100}\right] \times \frac{1}{1 + 0.2} = 83.33\%$$

As a consequence:

$$\mathrm{LR}_{t-1,t} = \text{Leverage} \times \left(\frac{S_t}{S_{t-1} \times Rfactor_t} - 1\right) = -5 \times \left(\frac{85}{100 \times 83.33\%} - 1\right) = -10\%$$

S_{t-1}	$S_{t-1} \times Rfactor_t$	S_t	Adjusted Underlying Stock Performance
100	83.33	85	2%

Value of the Certificate (t-1)	Value of the Certificate (t)	Certificates' performance (excluding any cost and fees)
1.20	1.08	-10%

In such case an Intraday Restrike Event would occur if the Underlying Stock price rises to \$95.83, which is 15% above \$83.33, the Underlying Stock Reference Price.

5. <u>Extraordinary Dividend</u>

Assuming there is an extraordinary dividend of \$20 (net of taxes) paid in respect of each stock.

S_{t-1} = \$100

S_t = \$84

$\mathrm{Div}_t = \$0$

$\mathrm{DivExc}_t = \$20$

R = \$0

M = 0

$$Rfactor_t = \left[1 - \frac{0 + 20 - 0 \times 0}{100}\right] \times \frac{1}{1 + 0} = 80\%$$

As a consequence:

$$\mathrm{LR}_{\mathrm{t-1,t}} = \text{Leverage} \times \left(\frac{\mathrm{S_t}}{\mathrm{S_{t-1}} \times Rfactor_t} - 1\right) = -5 \times \left(\frac{84}{100 \times 80\%} - 1\right) = -25\%$$

$\mathrm{S_{t-1}}$	$\mathrm{S_{t-1}} \times Rfactor_t$	$\mathrm{S_t}$	Adjusted Underlying Stock Performance
100	80	84	5%

Value of the Certificate (t-1)	Value of the Certificate (t)	Certificates' performance (excluding any cost and fees)
1.20	0.90	-25%

In such case an Intraday Restrike Event would occur if the Underlying Stock price rises to $92, which is 15% above $80, the Underlying Stock Reference Price.

INFORMATION RELATING TO THE COMPANY

*All information contained in this document regarding the Company, including, without limitation, its financial information, is derived from publicly available information which appears on the web-site of Hong Kong Exchanges and Clearing Limited (the "**HKExCL**") at http://www.hkex.com.hk and/or the Company's web-site at https://ir.baidu.com/. The Issuer has not independently verified any of such information.*

Baidu, Inc. (the "**Company**" or "**Baidu**") is a Chinese language Internet search provider. The Company offers a Chinese language search platform on its Baidu.com website that enables users to find information online, including webpages, news, images, documents and multimedia files, through links provided on its website. The Company operates through two segments, Baidu Core segment and iQIYI segment. Baidu Core mainly provides search-based, feed-based, and other online marketing services, as well as products and services from the Company's new artificial intelligence (AI) initiatives. Within Baidu Core, the Company's product and services offerings are categorized as Mobile Ecosystem, Baidu AI Cloud and Intelligent Driving & Other Growth Initiatives. iQIYI is an online entertainment service provider that offers original, professionally produced and partner-generated content on its platform.

Baidu was listed on the NASDAQ National Market (later renamed the Nasdaq Global Market) since August 2005, and was dual-listed on the Stock Exchange of Hong Kong Limited (SEHK) since March 2021.

The information set out in Appendix I of this document relates to the audited consolidated statements of the Company and its subsidiaries for each of the years ended 31 December 2018, 31 December 2019 and 31 December 2020 and has been extracted and reproduced from the Company's prospectus dated 12 March 2021. Further information relating to the Company may be located on the web-site of the HKExCL at http://www.hkex.com.hk.

INFORMATION RELATING TO THE DESIGNATED MARKET MAKER

Société Générale has been appointed the designated market maker ("**DMM**") for the Certificates. The DMM will provide competitive buy and sell quotes for the Certificates continuously during the trading hours of the SGX-ST on the following basis:

(a)	Maximum bid and offer spread	:	(i) when the best bid price of the Certificate is S$10 and below: 10 ticks or S$0.20 whichever is greater; and (ii) when the best bid price of the Certificate is above S$10: 5% of the best bid price of the Certificate.
(b)	Minimum quantity subject to bid and offer spread	:	10,000 Certificates
(c)	Last Trading Day for Market Making	:	The date falling 5 Exchange Business Days immediately preceding the Expiry Date

In addition, the DMM may not provide a quotation in the following circumstances:

(i) during the pre-market opening and five minutes following the opening of the SGX-ST on any trading day;

(ii) if the Certificates are valueless (where the Issuer's bid price is below the minimum bid size for such securities as prescribed by the SGX-ST);

(iii) before the Relevant Stock Exchange for the Underlying Stock has opened and after the Relevant Stock Exchange for the Underlying Stock has closed on any trading day;

(iv) when trading in the Underlying Stock is suspended or limited in a material way for any reason, for the avoidance of doubt, the DMM is not obliged to provide quotations for the Certificates at any time when the Underlying Stock is not negotiated/traded for any reason;

(v) where the Certificates are suspended from trading for any reason;

(vi) market disruption events, including, without limitation, any suspension of or limitation imposed on trading (including but not limited to unforeseen circumstances such as by reason of movements in price exceeding limits permitted by the SGX-ST or any act of God, war, riot, public disorder, explosion, terrorism or otherwise) in the Underlying Stock;

(vii) where the Issuer or the DMM faces technical problems affecting the ability of the DMM to provide bids and offer quotations;

(viii) where the ability of the Issuer to source a hedge or unwind an existing hedge, as determined by the Issuer in good faith, is materially affected by the prevailing market conditions, and the Issuer informs the SGX-ST of its inability to do so as soon as practicable;

(ix) in cases where the Issuer has no Certificates to sell, then the DMM will only provide the bid price;

(x) if the stock market experiences exceptional price movement and volatility;

(xi) when it is a public holiday in Singapore and/or Hong Kong and/or the SGX-ST and/or the HKEX are not open for dealings; and

(xii) during the suspension of trading of Certificates after an Air Bag Mechanism has been triggered.

The last trading day on which the DMM will provide competitive quotations for the Certificates would be the fifth Exchange Business Day immediately preceding the Expiry Date.

SUPPLEMENTAL INFORMATION RELATING TO THE ISSUER

The information set out in Appendix II of this document is a reproduction of the annual financial statements of the Issuer as at and for the year ended 31 December 2020 and its auditor's report.

SUPPLEMENTAL INFORMATION RELATING TO THE GUARANTOR

The information set out in Appendix III of this document is a reproduction of the press release dated 6 May 2021 containing the Guarantor's consolidated financial results for the first quarter ended 31 March 2021.

SUPPLEMENTAL GENERAL INFORMATION

The information set out herein is supplemental to, and should be read in conjunction with, the information set out on page 105 of the Base Listing Document.

1. Save as disclosed in this document and the Base Listing Document, neither the Issuer nor the Guarantor is involved in any legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Issuer or the Guarantor is aware) which may have or have had in the previous 12 months a significant effect on the financial position of the Issuer or the Guarantor in the context of the issuance of the Certificates.

2. Settlement of trades done on a normal "ready basis" on the SGX-ST generally take place on the second Business Day following the transaction. Dealing in the Certificates will take place in Board Lots in Singapore dollars. For further details on the transfer of Certificates and their exercise, please refer to the section headed "Summary of the Issue" above.

3. It is not the current intention of the Issuer to apply for a listing of the Certificates on any stock exchange other than the SGX-ST.

4. Save as disclosed in the Base Listing Document and herein, there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2020 or the Guarantor since 31 December 2020, in the context of the issuance of Certificates hereunder.

5. The following contracts, relating to the issue of the Certificates, have been or will be entered into by the Issuer and/or the Guarantor and may be material to the issue of the Certificates:

   (a) the Guarantee;

   (b) the Master Instrument; and

   (c) the Master Warrant Agent Agreement.

   None of the directors of the Issuer and the Guarantor has any direct or indirect interest in any of the above contracts.

6. The Auditors of the Issuer and the Guarantor have given and have not withdrawn their written agreement to the inclusion of the report, included herein, in the form and context in which it is included. Their report was not prepared exclusively for incorporation into this document.

   The Auditors of the Issuer and the Guarantor have no shareholding in the Issuer or the Guarantor or any of its subsidiaries, nor do they have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities of the Issuer or the Guarantor or any of its subsidiaries.

7. The Certificates are not fully covered by the Underlying Stock held by Issuer or a trustee for and on behalf of the Issuer. The Issuer has appropriate risk management capabilities to manage the issue of the Certificates.

8. Société Générale, Singapore Branch, currently of 8 Marina Boulevard, #12-01 Marina Bay Financial Centre Tower 1, Singapore 018981, has been authorised to accept, on behalf of the Issuer and the Guarantor, service of process and any other notices required to be served on the Issuer or the Guarantor. Any notices required to be served on the Issuer or the Guarantor should be sent to Société Générale at the above address for the attention of Société Générale Legal Department.

9. Copies of the following documents may be inspected during usual business hours on any weekday (Saturdays, Sundays and holidays excepted) at the offices of Société Générale, Singapore Branch at 8 Marina Boulevard, #12-01 Marina Bay Financial Centre Tower 1, Singapore 018981, during the period of 14 days from the date of this document:

   (a) the Memorandum and Articles of Association of the Issuer and the Constitutional Documents of the Guarantor;

   (b) the latest financial reports (including the notes thereto) of the Issuer;

   (c) the latest financial reports (including the notes thereto) of the Guarantor;

   (d) the consent letters from the Auditors to the Issuer and the Guarantor referred to in paragraph 6 above;

   (e) the Base Listing Document;

   (f) this document; and

   (g) the Guarantee.

PLACING AND SALE

General

No action has been or will be taken by the Issuer that would permit a public offering of the Certificates or possession or distribution of any offering material in relation to the Certificates in any jurisdiction where action for that purpose is required. No offers, sales or deliveries of any Certificates, or distribution of any offering material relating to the Certificates may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and will not impose any obligation on the Issuer. In the event that the Issuer contemplates a placing, placing fees may be payable in connection with the issue and the Issuer may at its discretion allow discounts to placees.

Each Certificate Holder undertakes that it will inform any subsequent purchaser of the terms and conditions of the Certificates and all such subsequent purchasers as may purchase such securities from time to time shall deemed to be a Certificate Holder for the purposes of the Certificates and shall be bound by the terms and conditions of the Certificates.

Singapore

This document has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this document and any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of Certificates may not be circulated or distributed, nor may Certificates be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than pursuant to, and in accordance with the conditions of, any applicable provision of the Securities and Futures Act, Chapter 289 of Singapore.

Hong Kong

Each dealer has represented and agreed, and each further dealer appointed in respect of the Certificates and each other purchaser will be required to represent and agree, that:

(a) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Certificates (except for Certificates which are a "structured product" as defined in the Securities and Futures Ordinance (Cap.571) of Hong Kong) other than (i) to "professional investors" as defined in the Securities and Futures Ordinance and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a "prospectus", as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (CWUMPO) or which do not constitute an offer to the public within the meaning of that Ordinance; and

(b) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined in the Securities and Futures Ordinance and any rules made under that Ordinance.

European Economic Area and the United Kingdom

Each dealer represents and agrees, and each further dealer appointed in respect of the Certificates will be required to represent and agree that, it has not offered, sold or otherwise made available and will not offer, sell, or otherwise make available any Certificates which are the subject of the offering as contemplated by this document to any retail investor in the European Economic Area or in the United Kingdom. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

(ii) a customer within the meaning of Directive 2016/97/EU (as amended, the Insurance Distribution Directive), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

(iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended and superseded, the Prospectus Regulation); and

(b) the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Certificates to be offered so as to enable an investor to decide to purchase or subscribe the Certificates.

In respect of the United Kingdom, each dealer has further represented and agreed, and each further dealer appointed in respect of the Certificates will be required to further represent and agree, that:

(a) in respect to Certificates having a maturity of less than one year: (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (ii) it has not offered or sold and will not offer or sell any Certificates other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Certificates would otherwise constitute a contravention of Section 19 of Financial Services and Markets Act, as amended (the "**FSMA**") by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of the FSMA) received by it in connection with the issue or sale of any Certificates in circumstances in which section 21(1) of the FSMA does not apply to the Issuer or the Guarantor; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the United Kingdom.

United States

The Certificates and the Guarantee have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or any state securities law, and trading in the Certificates has not been approved by the United States Commodity Futures Trading Commission (the "**CFTC**") under the United States Commodity Exchange Act of 1936, as amended (the "**Commodity Exchange Act**") and the Issuer will not be registered as an investment company under the United States Investment Company Act of 1940, as amended, and the rules and regulations thereunder. None of the Securities and Exchange Commission, any state securities commission or regulatory authority or any other United States, French or other regulatory authority has approved or disapproved of the Certificates or the Guarantee or passed upon the accuracy or adequacy of this document. Accordingly, Certificates, or interests therein, may not at any time be offered, sold, resold, traded, pledged, exercised, redeemed, transferred or delivered, directly or indirectly, in the United States or to, or for the account or benefit of, U.S. persons, nor may any U.S. person at any time trade, own, hold or maintain a position in the Certificates or any interests therein. In addition, in the absence of relief from the CFTC, offers, sales, re-sales, trades, pledges, exercises, redemptions, transfers or deliveries of Certificates, or interests therein, directly or indirectly, in the United States or to, or for the account or benefit of, U.S. persons, may constitute a violation of United States law governing commodities trading and commodity pools. Consequently, any offer, sale, resale, trade, pledge, exercise, redemption, transfer or delivery made, directly or indirectly, within the United States or to, or for the account or benefit of, a U.S. person will not be recognised.

Each dealer has represented and agreed, and each further dealer will be required to represent and agree, that it has not and will not at any time offer, sell, resell, trade, pledge, exercise, redeem, transfer or deliver, directly or indirectly, Certificates in the United States or to, or for the account or benefit of, any U.S. person or to others for offer, sale, resale, trade, pledge, exercise, redeem, transfer or delivery, directly or indirectly, in the United States or to, or for the account or benefit of, any such U.S. person. Any person purchasing Certificates of any tranches must agree with the relevant dealer or the seller of such Certificates that (i) it will not at any time offer, sell, resell, trade, pledge, exercise, redeem, transfer or deliver, directly or indirectly, any Certificates in the United States or to, or for the account or benefit of, any U.S. person or to others for offer, sale, resale, trade, pledge, exercise, redemption, transfer or delivery, directly or indirectly, in the United States or to, or for the account or benefit of, any U.S. person, and (ii) it is not purchasing any Certificates for the account or benefit of any U.S. person.

Exercise or otherwise redemption of Certificates will be conditional upon certification that each person exercising or otherwise redeeming a Certificate is not a U.S. person or in the United States and that the Certificate is not being exercised or otherwise redeemed on behalf of a U.S. person. No payment will be made to accounts of holders of the Certificates located in the United States.

As used in the preceding paragraphs, the term "**United States**" includes the territories, the possessions and all other areas subject to the jurisdiction of the United States of America, and the term "**U.S. person**" means any person who is (i) a U.S. person as defined under Regulation S under the Securities Act, (ii) a U.S. person as defined in paragraph 7701(a)(30) of the Internal Revenue Code of 1986, or (iii) a person who comes within any definition of U.S. person for the purposes of the United States Commodity Exchange Act of 1936, as amended (the "CEA") or any rules thereunder of the CFTC (the "**CFTC Rules**") , guidance or order proposed or issued under the CEA (for the avoidance of doubt, any person who is not a "Non-United States person" defined under CFTC Rule 4.7(a)(1)(iv), but excluding, for purposes of subsection (D) thereof, the exception for qualified eligible persons who are not "Non-United States persons", shall be considered a U.S. person).

APPENDIX I

REPRODUCTION OF THE AUDITED CONSOLIDATED STATEMENTS FOR EACH OF THE YEARS ENDED 31 DECEMBER 2018, 31 DECEMBER 2019 AND 31 DECEMBER 2020 OF BAIDU, INC. AND ITS SUBSIDIARIES

The information set out below is a reproduction of the audited consolidated statements of the Company and its subsidiaries for each of the years ended 31 December 2018, 31 December 2019 and 31 December 2020 and has been extracted and reproduced from the Company's prospectus dated 12 March 2021.

The following is the text of a report set out on pages IA-1 to IA-2, received from the Company's reporting accountants, Ernst & Young, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus. It is prepared and addressed to the directors of the Company and to the Joint Sponsors pursuant to the requirements of HKSIR 200, Accountants' Reports on Historical Financial Information in Investment Circulars issued by the Hong Kong Institute of Certified Public Accountants.

22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

The Directors
Baidu, Inc.

Merrill Lynch (Asia Pacific) Limited
CLSA Capital Markets Limited
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

We report on the historical financial information of Baidu, Inc. and its subsidiaries (together, the "Company") set out on pages IA-3 to IA-98, which comprises the consolidated balance sheets of the Company as at December 31, 2018, 2019 and 2020, and the consolidated statements of comprehensive income (loss), the consolidated statements of cash flows and the consolidated statements of shareholders' equity of the Company for each of the years ended December 31, 2018, 2019 and 2020 (the "Track Record Period"), and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages IA-3 to IA-98 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated March 12, 2021 (the "Prospectus") in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Directors' responsibility for the Historical Financial Information

The directors of the Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation set out in note 2.(a) to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200, *Accountants' Reports on Historical Financial Information in Investment Circulars* issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of presentation set out in note 2.(a) to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the consolidated financial position of the Company as at December 31, 2018, 2019 and 2020 and of the consolidated financial performance and cash flows of the Company for each of the Track Record Period in accordance with the basis of presentation set out in note 2.(a) to the Historical Financial Information.

Report on matters under the Rules Governing the Listing of Securities on the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Historical Financial Statements as defined on page IA-3 have been made.

Dividends

We refer to note 27 to the Historical Financial Information which states that no dividends have been paid by the Company in respect of the Track Record Period.

No historical financial statements for the Company

As at the date of this report, no statutory financial statements have been prepared for the Company since its date of incorporation.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong
March 12, 2021

I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on previously issued financial statements of the Company for the Track Record Period. The previously issued financial statements were audited by Ernst & Young Hua Ming LLP in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB") (the "Historical Financial Statements").

The Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest million except when otherwise indicated.

BAIDU, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in millions of Renminbi ("RMB"), and in millions of U.S. Dollars ("US$"), except for number of shares and per share data)

	Notes	As of December 31, 2018 RMB	2019 RMB	2020 RMB	2020 US$ Note 2.(a)
ASSETS					
Current assets:					
Cash and cash equivalents		27,638	33,443	35,782	5,484
Restricted cash		2,189	996	758	117
Short-term investments, net	4	111,626	112,924	126,402	19,372
Accounts receivable, net	7	6,015	7,416	8,668	1,328
Amounts due from related parties	23	785	1,594	726	111
Other current assets, net	8	6,841	9,189	11,006	1,687
Total current assets		**155,094**	**165,562**	**183,342**	**28,099**
Non-current assets:					
Fixed assets, net	9	17,903	18,311	17,508	2,683
Licensed copyrights, net	5	6,641	6,287	6,435	986
Produced content, net	6	3,736	4,355	6,556	1,005
Intangible assets, net	10	2,540	1,600	2,022	310
Goodwill	10	18,536	18,250	22,248	3,410
Long-term investments, net	4	80,454	69,410	76,233	11,683
Amounts due from related parties	23	4,297	3,564	3,438	527
Deferred tax assets, net	16	2,324	2,193	1,674	257
Operating lease right-of-use assets	15	—	7,332	9,804	1,503
Other non-current assets	8	6,041	4,452	3,448	527
Total non-current assets		**142,472**	**135,754**	**149,366**	**22,891**
Total assets		**297,566**	**301,316**	**332,708**	**50,990**
LIABILITIES AND EQUITY					
Current liabilities (including amounts of the consolidated VIEs without recourse to the primary beneficiaries of RMB 18,812, RMB24,692 and RMB 25,051 (US$3,839) as of December 31, 2018, 2019 and 2020, respectively):	1				
Short-term loans	12	3,046	2,618	3,016	462
Accounts payable and accrued liabilities	11	35,381	32,701	36,716	5,627
Customer deposits and deferred revenue		9,221	11,062	12,626	1,935
Deferred income		523	529	158	24
Long-term loans, current portion	12	84	737	7,427	1,138
Convertible senior notes, current portion	14	—	—	4,752	728
Notes payable, current portion	13	6,871	5,219	—	—
Amounts due to related parties	23	1,727	2,231	1,324	203
Operating lease liabilities	15	—	2,283	2,366	364
Total current liabilities		**56,853**	**57,380**	**68,385**	**10,481**

BAIDU, INC.

CONSOLIDATED BALANCE SHEETS—continued

(Amounts in millions of Renminbi ("RMB"), and in millions of U.S. Dollars ("US$"), except for number of shares and per share data)

	Notes	As of December 31, 2018 RMB	2019 RMB	2020 RMB	2020 US$ Note 2.(a)
Non-current liabilities (including amounts of the consolidated VIEs without recourse to the primary beneficiaries of RMB2,417, RMB6,295 and RMB 5,519 (US$846) as of December 31, 2018, 2019 and 2020, respectively):	1				
Deferred income		54	17	97	15
Deferred revenue		1,309	1,009	686	105
Amounts due to related parties	23	4,360	3,846	3,543	543
Long-term loans	12	7,456	7,804	—	—
Notes payable	13	42,735	38,090	48,408	7,419
Convertible senior notes	14	4,712	12,297	11,927	1,828
Deferred tax liabilities	16	4,099	3,273	3,067	470
Operating lease liabilities	15	—	4,486	4,693	719
Other non-current liabilities		236	299	59	9
Total non-current liabilities		**64,961**	**71,121**	**72,480**	**11,108**
Total liabilities		**121,814**	**128,501**	**140,865**	**21,589**
Commitments and contingencies	18				
Redeemable noncontrolling interests	19	**716**	**1,109**	**3,102**	**475**
Equity					
Class A Ordinary Shares, par value US$0.000000625 per share, 66,000,000,000 shares authorized, and 2,218,695,360 shares, 2,190,529,680 shares and 2,107,228,720 shares issued and outstanding as at December 31, 2018, December 31, 2019 and December 31, 2020, respectively *(Note)*	20	—	—	—	—
Class B Ordinary Shares, par value US$0.000000625 per share, 2,832,000,000 shares authorized, and 576,100,320 shares, 576,100,320 shares and 571,900,320 shares issued and outstanding as at December 31, 2018, December 31, 2019 and December 31, 2020, respectively *(Note)*	20	—	—	—	—
Additional paid-in capital		33,441	38,714	47,213	7,236
Retained earnings	20	129,246	126,268	135,284	20,733
Accumulated other comprehensive (loss) income	20	210	(1,383)	199	30
Total Baidu, Inc. shareholders' equity		**162,897**	**163,599**	**182,696**	**27,999**
Noncontrolling interests		**12,139**	**8,107**	**6,045**	**927**
Total equity		**175,036**	**171,706**	**188,741**	**28,926**
Total liabilities, redeemable noncontrolling interests and equity		**297,566**	**301,316**	**332,708**	**50,990**

Note: Par value per share and the number of shares as of December 31, 2018, 2019 and 2020 have been retrospectively adjusted for the Share Subdivision that became effective on March 1, 2021 as detailed in Note 2.(a) and Note 21.

BAIDU, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(Amounts in millions of Renminbi ("RMB"), and in millions of U.S. Dollars ("US$"), except for number of shares and per share (or ADS) data)

	Notes	For the Years Ended December 31, 2018 RMB	2019 RMB	2020 RMB	2020 US$ Note 2.(a)
Revenues:					
Online marketing services		81,912	78,093	72,840	11,163
Others		20,365	29,320	34,234	5,247
Total revenues	24	**102,277**	**107,413**	**107,074**	**16,410**
Operating costs and expenses:					
Cost of revenues		51,744	62,850	55,158	8,454
Selling, general and administrative		19,231	19,910	18,063	2,769
Research and development		15,772	18,346	19,513	2,989
Total operating costs and expenses		**86,747**	**101,106**	**92,734**	**14,212**
Operating profit		**15,530**	**6,307**	**14,340**	**2,198**
Other income (loss):					
Interest income		4,451	6,060	5,358	822
Interest expense		(1,883)	(2,960)	(3,103)	(476)
Foreign exchange loss, net		(122)	(33)	(660)	(101)
Loss from equity method investments	4	(79)	(1,254)	(2,248)	(345)
Others, net	4	9,428	(8,460)	9,403	1,441
Total other income (loss), net		**11,795**	**(6,647)**	**8,750**	**1,341**
Income (loss) before income taxes		**27,325**	**(340)**	**23,090**	**3,539**
Income taxes	16	4,743	1,948	4,064	623
Net income (loss)		**22,582**	**(2,288)**	**19,026**	**2,916**
Less: net loss attributable to noncontrolling interests		(4,991)	(4,345)	(3,446)	(528)
Net income attributable to Baidu, Inc.		**27,573**	**2,057**	**22,472**	**3,444**
Earnings per share for Class A and Class B ordinary shares *(Note)*:	21				
Basic		9.83	0.71	8.19	1.26
Diluted		9.75	0.70	8.12	1.24
Earnings per ADS (1 ADS equals 8 Class A ordinary shares) *(Note)*:	21				
Basic		78.64	5.68	65.54	10.04
Diluted		78.03	5.60	64.98	9.96
Weighted average number of Class A and Class B ordinary shares outstanding (in millions) *(Note)*:					
Basic		2,792	2,787	2,732	2,732
Diluted		2,814	2,791	2,756	2,756
Other comprehensive income (loss):	20				
Foreign currency translation adjustments		194	(782)	1,936	296
Unrealized gains (losses) on available-for-sale investments, net of reclassification		92	(708)	(161)	(25)
Other comprehensive income (loss), net of tax		**286**	**(1,490)**	**1,775**	**271**
Comprehensive income (loss)		**22,868**	**(3,778)**	**20,801**	**3,187**
Less: comprehensive loss attributable to noncontrolling interests and redeemable noncontrolling interests		(3,985)	(4,242)	(3,253)	(499)
Comprehensive income attributable to Baidu, Inc.		**26,853**	**464**	**24,054**	**3,686**

Note: Basic and diluted earnings per share and the number of shares for the years ended December 31, 2018, 2019 and 2020 have been retrospectively adjusted for the Share Subdivision that became effective on March 1, 2021 as detailed in Note 2.(a) and Note 21.

BAIDU, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in millions of Renminbi ("RMB"), and in millions of U.S. Dollars ("US$"))

	For the Years Ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US$ Note 2.(a)
Cash flows from operating activities:				
Net income (loss)	22,582	(2,288)	19,026	2,916
Adjustments to reconcile net income (loss) to net cash generated from operating activities:				
Depreciation of fixed assets and computer parts	3,730	5,615	5,772	885
Amortization of intangible assets	385	661	544	83
Deferred income tax, net	(761)	(696)	115	17
Share-based compensation	4,676	5,626	6,728	1,031
Allowance for credit losses	451	429	679	104
Investment and interest income	(7,648)	(2,305)	(11,966)	(1,833)
Amortization and impairment of licensed copyrights	12,253	12,885	11,864	1,818
Amortization and impairment of produced content	2,266	2,977	4,534	695
Impairment of other assets	1,208	10,714	2,928	449
Share of losses from equity method investments	79	1,254	2,248	345
(Gain)/loss on disposal of subsidiaries	(5,525)	578	—	—
Barter transaction revenue	(1,083)	(683)	(1,376)	(211)
Accretion on convertible senior notes and asset-backed debt securities	25	380	501	77
Other non-cash expenses	99	76	739	113
Others	(51)	(78)	71	10
Changes in operating assets and liabilities, net of effects of acquisitions and disposals:				
Accounts receivable	(1,611)	(1,779)	(1,660)	(254)
Amounts due from related parties	527	(135)	125	19
Licensed copyrights	—	—	(10,528)	(1,613)
Produced content	(4,545)	(3,596)	(6,728)	(1,031)
Other assets	3,212	(863)	(351)	(54)
Customer deposits and deferred revenue	912	1,515	1,177	180
Accounts payable and accrued liabilities	4,094	(1,653)	208	32
Deferred income	(64)	(37)	(293)	(45)
Amounts due to related parties	756	(139)	(157)	(24)
Net cash generated from operating activities	**35,967**	**28,458**	**24,200**	**3,709**
Cash flows from investing activities:				
Acquisition of fixed assets	(8,772)	(6,428)	(5,084)	(779)
Acquisition of businesses, net of cash acquired	(1,978)	(969)	(2,396)	(367)
Acquisition of licensed copyrights	(13,116)	(12,152)	—	—
Acquisition of intangible assets	(385)	(541)	(247)	(38)
Purchases of held-to-maturity investments	(27,640)	(120,189)	(159,197)	(24,399)
Maturities of held-to-maturity investments	49,040	46,563	134,299	20,582
Purchases of available-for-sale investments	(284,149)	(218,171)	(133,008)	(20,384)
Sales and maturities of available-for-sale investments	239,861	291,163	135,606	20,783
Purchases of other long-term investments	(9,891)	(6,322)	(4,467)	(685)
Proceeds from disposal of long-term investments	2,524	7,517	6,523	1,000
Disposal of subsidiaries' shares	5,581	(476)	(486)	(74)
Loans provided to related parties	(8,632)	—	—	—
Repayment of loans provided to related parties	12,270	24	917	140
Micro loan origination and disbursement *(Note)*	(35,824)	—	—	—
Principal payments received on micro loans *(Note)*	38,063	—	—	—
Purchases of other invested securities *(Note)*	(16,362)	—	—	—
Sales and maturities of other invested securities *(Note)*	24,949	—	—	—
Other investing activities	1	7	(12)	(2)
Net cash used in investing activities	**(34,460)**	**(19,974)**	**(27,552)**	**(4,223)**

Note: The financial services business ("Du Xiaoman") was disposed in the year of 2018. Please see Note 4 for further information.

BAIDU, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS—continued

(Amounts in millions of Renminbi ("RMB"), and in millions of U.S. Dollars ("US$"))

	For the Years Ended December 31,			
	2018	2019	2020	2020
	RMB	RMB	RMB	US$ Note 2.(a)
Cash flows from financing activities:				
Proceeds from short-term loans	3,787	2,738	3,559	545
Repayments of short-term loans	(1,055)	(3,166)	(3,223)	(494)
Proceeds from long-term loans	1,168	946	—	—
Repayments of long-term loans	(98)	(168)	(709)	(109)
Loans borrowed from related parties	3,732	—	—	—
Repayment of loans borrowed from related parties	—	—	(356)	(55)
Proceeds from issuance of long-term notes, net of issuance costs	18,050	(10)	13,346	2,046
Repayment of long-term notes	(6,846)	(6,912)	(5,378)	(824)
Proceeds from issuance of convertible notes, net of issuance costs	5,035	7,910	5,151	789
Purchase of capped calls	(465)	(567)	—	—
Proceeds from issuance of subsidiaries' shares	15,689	401	4,662	715
Repurchase of ordinary shares	(3,312)	(4,958)	(13,054)	(2,001)
Proceeds from exercise of share options	676	18	228	35
Proceeds from issuance of redeemable noncontrolling interests	—	—	1,669	257
Proceeds from third-party investors for sale of financial products (*Note*)	15,143	—	—	—
Repayment to third-party investors for sale of financial products (*Note*)	(33,376)	—	—	—
Proceeds from secured borrowings from third-party financial institutions (*Note*)	10,380	—	—	—
Repayment of secured borrowings from third-party financial institutions (*Note*)	(13,426)	—	—	—
Other financing activities	—	(105)	(230)	(35)
Net cash provided by (used in) financing activities	**15,082**	**(3,873)**	**5,665**	**869**
Effect of exchange rate changes on cash, cash equivalents and restricted cash	1,902	1	(212)	(32)
Net increase in cash, cash equivalents and restricted cash	**18,491**	**4,612**	**2,101**	**323**
Cash, cash equivalents and restricted cash at beginning of the year	11,336	29,827	34,439	5,278
Cash, cash equivalents and restricted cash at end of the year	**29,827**	**34,439**	**36,540**	**5,601**
Supplemental disclosures:				
Interest paid	1,579	2,448	2,204	338
Income taxes paid	5,509	4,100	3,608	553
Non-cash investing and financing activities:				
Acquisition of fixed assets included in accounts payable and accrued liabilities	1,516	1,020	984	151
Non-cash acquisitions of investments	764	28	54	8

Note: The financial services business ("Du Xiaoman") was disposed in the year of 2018. Please see Note 4 for further information.

BAIDU, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Amounts in millions of Renminbi ("RMB") except for number of shares)

	Attributable to Baidu, Inc.						
	Ordinary shares						
	Number of shares (Note)	Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Noncontrolling interests	Total shareholders' equity
		RMB	RMB	RMB	RMB	RMB	RMB
Balances at December 31, 2017	**2,785,298,560**	**—**	**12,088**	**102,328**	**930**	**4,004**	**119,350**
Cumulative effect of accounting change	—	—	—	2,787	(1,854)	—	933
Net income	—	—	—	27,573	—	(4,991)	22,582
Other comprehensive income	—	—	—	—	1,134	1,006	2,140
Business combinations	—	—	75	—	—	1,312	1,387
Issuance of shares by the Company's subsidiaries to noncontrolling interest	—	—	14,984	—	—	(733)	14,251
Exercise of share-based awards	26,070,320	—	689	—	—	—	689
Share-based compensation	—	—	4,340	—	—	217	4,557
Accretion of redeemable noncontrolling interests	—	—	—	(130)	—	(16)	(146)
Repurchase and retirement of ordinary shares	(16,573,200)	—	—	(3,312)	—	—	(3,312)
Disposal of subsidiaries' shares	—	—	1,323	—	—	235	1,558
Conversion of iQIYI preferred shares recognized as redeemable noncontrolling interests to ordinary shares	—	—	—	—	—	11,150	11,150
Equity component of convertible senior notes issued by iQIYI, net of issuance costs	—	—	206	—	—	156	362
Purchase of capped calls	—	—	(264)	—	—	(201)	(465)
Balances at December 31, 2018	**2,794,795,680**	**—**	**33,441**	**129,246**	**210**	**12,139**	**175,036**
Net income	—	—	—	2,057	—	(4,345)	(2,288)
Other comprehensive income	—	—	—	—	(1,593)	103	(1,490)
Business combinations	—	—	—	—	—	266	266
Acquisition of noncontrolling interests in a subsidiary	—	—	(22)	—	—	(43)	(65)
Issuance of shares by the Company's subsidiaries to noncontrolling interest	—	—	(19)	—	—	325	306
Exercise of share-based awards	24,997,040	—	18	—	—	—	18
Share-based compensation	—	—	5,045	—	—	504	5,549
Dividends paid and payable by the Company's subsidiaries	—	—	—	—	—	(128)	(128)
Accretion of redeemable noncontrolling interests	—	—	—	(77)	—	(34)	(111)
Repurchase and retirement of ordinary shares	(53,162,720)	—	—	(4,958)	—	—	(4,958)
Disposal of subsidiaries' shares	—	—	13	—	—	(863)	(850)
Equity component of convertible senior notes issued by iQIYI, net of issuance costs	—	—	559	—	—	429	988
Purchase of capped calls	—	—	(321)	—	—	(246)	(567)
Balances at December 31, 2019	**2,766,630,000**	**—**	**38,714**	**126,268**	**(1,383)**	**8,107**	**171,706**

BAIDU, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY—continued

(Amounts in millions of Renminbi ("RMB") except for number of shares)

	Attributable to Baidu, Inc.						
	Ordinary shares						
	Number of shares (Note)	Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive (loss) income	Noncontrolling interests	Total shareholders' equity
		RMB	RMB	RMB	RMB	RMB	RMB
Balances at December 31, 2019	**2,766,630,000**	—	**38,714**	**126,268**	**(1,383)**	**8,107**	**171,706**
Cumulative effect of accounting change	—	—	—	(314)	—	(43)	(357)
Net income	—	—	—	22,472	—	(3,446)	19,026
Other comprehensive income	—	—	—	—	1,582	193	1,775
Business combinations	—	—	—	—	—	798	798
Issuance of shares by the Company's subsidiaries to noncontrolling interest	—	—	2,260	—	—	2,397	4,657
Exercise of share-based awards	38,595,040	—	302	—	—	—	302
Share-based compensation	—	—	5,749	—	—	645	6,394
Dividends payable by the Company's subsidiaries	—	—	—	—	—	(70)	(70)
Return of equity to noncontrolling interest shareholders	—	—	—	—	—	(2,704)	(2,704)
Accretion of redeemable noncontrolling interests	—	—	—	(88)	—	(39)	(127)
Repurchase and retirement of ordinary shares	(126,096,000)	—	—	(13,054)	—	—	(13,054)
Equity component of convertible senior notes issued by iQIYI, net of issuance costs	—	—	208	—	—	187	395
Others	—	—	(20)	—		20	—
Balances at December 31, 2020	**2,679,129,040**	—	**47,213**	**135,284**	**199**	**6,045**	**188,741**
Balances at December 31, 2020, in US$			**7,236**	**20,733**	**30**	**927**	**28,926**

Note: The number of shares has been retrospectively adjusted for the Share Subdivision that became effective on March 1, 2021 as detailed in Note 2.(a) and Note 21.

II NOTES TO HISTORICAL FINANCIAL INFORMATION

1. ORGANIZATION

Baidu, Inc. ("Baidu" or the "Company") was incorporated under the laws of the Cayman Islands on January 18, 2000. The Company, its subsidiaries, variable interest entities ("VIEs") and subsidiaries of the VIEs are hereinafter collectively referred to as the "Group".

As of December 31, 2020, the Company has subsidiaries incorporated in countries and jurisdictions including the People's Republic of China ("PRC"), Hong Kong, Japan, Cayman Islands and British Virgin Islands ("BVI"). As of December 31, 2020, the Company also effectively controls a number of VIEs through the Primary Beneficiaries, as defined below. The VIEs include:

- Beijing Baidu Netcom Science Technology Co., Ltd. ("Baidu Netcom"), controlled by the Company;
- Beijing Perusal Technology Co., Ltd. ("Beijing Perusal"), controlled by the Company;
- Beijing iQIYI Science & Technology Co., Ltd. ("Beijing iQIYI"), and other VIEs controlled by iQIYI, Inc. ("iQIYI VIEs"); and
- Other VIEs controlled by the Company or the Company's subsidiaries.

The Group's operations are consisting of Baidu Core and iQIYI. Baidu Core offers online marketing service, and other services including cloud services and other growth initiatives including Apollo intelligent driving, Xiaodu smart devices, etc.. iQIYI is an innovative market-leading online entertainment service and offers membership services, online advertising services, content distribution and other services. The Group's principal geographic market is in the PRC. The Company does not conduct any substantive operations of its own, but conducts its primary business operations through its subsidiaries and VIEs in the PRC.

PRC laws and regulations prohibit or restrict foreign ownership of internet content, value-added telecommunication-based online advertising, audio and video services, and mobile application distribution businesses, etc. To comply with these foreign ownership restrictions, the Group operates its websites and primarily provides services subject to such restriction in the PRC through the VIEs, the PRC legal entities that were established or whose equity shares were held by the individuals authorized by the Group. The paid-in capital of the VIEs was mainly funded by the Company or its subsidiaries through loans extended to the authorized individuals who were the shareholders of the VIEs. The Company or its subsidiaries has entered into proxy agreements or powers of attorney and exclusive equity purchase option agreement with the VIEs and nominee shareholders of the VIEs through the Company or its subsidiaries ("Primary Beneficiaries"), which give the Primary Beneficiaries the power to direct the activities that most significantly affect the economic performance of the VIEs and to acquire the equity interests in the VIEs when permitted by the PRC laws, respectively. Certain exclusive agreements have been entered into with the VIEs through the Primary Beneficiaries or their wholly-owned subsidiaries in the PRC, which obligate the Primary Beneficiaries to absorb losses or receive economic benefits of the VIEs' that could potentially be significant to the VIEs or entitle the Primary Beneficiaries to receive economic benefits from the VIEs that could potentially be significant to the VIEs. In addition, the Group has entered into certain agreements with the shareholders of the VIEs through the Primary Beneficiaries or their wholly-owned subsidiaries, including loan agreements for the paid-in capital of the VIEs and equity pledge agreements for the equity interests in the VIEs held by the shareholders of the VIEs.

Despite the lack of legal majority ownership, there exists a parent-subsidiary relationship between the Primary Beneficiaries and the VIEs through the aforementioned agreements with the shareholders of the VIEs. The shareholders of the VIEs effectively assigned all of their voting rights underlying their equity interest in the VIEs to the Primary Beneficiaries. In addition, through the other exclusive agreements, which consist of operating agreements, technology consulting and services agreements

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

and license agreements, the Primary Beneficiaries, by themselves or their wholly-owned subsidiaries in the PRC, demonstrate their ability and intention to continue to exercise the ability to absorb losses or receive economic benefits that could potentially be significant to the VIEs. The VIEs are subject to operating risks, which determine the variability of the Company's interest in those entities. Based on these contractual arrangements, the Company consolidates the VIEs as required by Accounting Standards Codification ("ASC") Topic 810, *Consolidation*.

Unrecognized revenue-producing assets held by the VIEs include certain internet content provisions and other licenses, domain names and trademarks. The internet content provisions and other licenses, which are held by the VIEs that provide the relevant services, are required under relevant PRC laws, rules and regulations for the operation of Internet businesses in the PRC, and therefore are integral to the Company's operations.

The principal terms of the agreements entered into amongst the VIEs, their respective shareholders and the Primary Beneficiaries before the amendments made in March 2018 are further described below.

Loan Agreements

Pursuant to loan agreements amongst the shareholders of Baidu Netcom and Baidu Online Network Technology (Beijing) Co., Ltd. ("Baidu Online"), one of the Company's subsidiaries, Baidu Online provided interest-free loans in an aggregate amount of RMB13.4 billion to the shareholders of Baidu Netcom solely for the latter to fund the capitalization of Baidu Netcom. The loans can be repaid only with the proceeds from the sale of the shareholders' equity interest in Baidu Netcom to Baidu Online or its designated person. The term of the loan agreements will expire on July 9, 2029 and August 19, 2029, and can be extended with the written consent of both parties before its expiration.

Pursuant to loan agreements amongst the shareholders of Baidu Perusal and Baidu Online, the amount of loans extended to the respective shareholders of Beijing Perusal is RMB3.2 billion. The term of the loan agreements will expire on March 30, 2028 and October 29, 2029, and can be extended with the written consent of both parties before its expiration. Each of the loan agreements amongst Baidu Online or other subsidiaries and the respective shareholders of Beijing Perusal or other VIEs, including iQIYI VIEs, contains substantially the same terms as those described above, except that the amount of the loans and the contract expiration date varies. Beijing QIYI Century Science & Technology Co., Ltd ("Beijing QIYI Century"), a wholly-owned foreign enterprise of iQIYI, has extended the term of the amended and restated loan agreement.

Exclusive Equity Purchase and Transfer Option Agreement

Pursuant to the exclusive equity purchase and transfer option agreement amongst the shareholders of Baidu Netcom, Baidu Netcom and Baidu Online, the shareholders of Baidu Netcom irrevocably granted Baidu Online or its designated person(s) an exclusive option to purchase, to the extent permitted under PRC law, all or part of the equity interests in Baidu Netcom for the cost of the initial contributions to the registered capital or the minimum amount of consideration permitted by applicable PRC law. The shareholders should remit to Baidu Online any amount that is paid by Baidu Online or its designated person(s) in connection with the purchased equity interest. Baidu Online or its designated person(s) have sole discretion to decide when to exercise the option, whether in part or in full. Any and all dividends and other capital distributions made by Baidu Netcom to its shareholders should be repaid to Baidu Online in full amount. Baidu Online would provide unlimited financial support to Baidu Netcom if, in the normal operation of business, Baidu Netcom would become in need of any form of reasonable financial support. If Baidu Netcom were to incur any loss and as a result

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

Exclusive Equity Purchase and Transfer Option Agreement—continued

cannot repay any loans from Baidu Online, Baidu Online should unconditionally forgive any such loans to Baidu Netcom given that Baidu Netcom provides sufficient proof for its loss and incapacity to repay. The agreement will terminate when the shareholders of Baidu Netcom have transferred all their equity interests in Baidu Netcom to Baidu Online or its designated person(s) or upon expiration of the term of business of Baidu Online or Baidu Netcom.

Each of the exclusive equity purchase and transfer option agreements amongst the Company, Baidu Online, Beijing Perusal and its shareholders and iQIYI, Beijing QIYI Century, Beijing iQIYI and its shareholders contains substantially the same terms as those described above, except that the initial term of the amended and restated exclusive purchase option agreement amongst iQIYI, Beijing QIYI Century, Beijing iQIYI and its shareholder is ten years, which has been extended, and can be further renewed at iQIYI's discretion.

Commitment Letters

Pursuant to the commitment letter dated January 30, 2013, under the condition that Beijing iQIYI remains as a consolidated affiliated entity of iQIYI under United States generally accepted accounting principles ("U.S. GAAP") and the relevant contractual arrangements remain in effect, iQIYI commits to provide unlimited financial support to Beijing iQIYI, if Beijing iQIYI requires any form of reasonable financial support for its normal business operations. If Beijing iQIYI incurs any losses and as a result cannot repay its loans from iQIYI and Beijing QIYI Century, one of iQIYI's subsidiaries, iQIYI and Beijing QIYI Century would unconditionally forgive their loans to Beijing iQIYI, if Beijing iQIYI provides sufficient proof for its loss and incapacity to repay.

The commitment letters executed by other iQIYI VIEs contain terms similar to the terms described above.

Proxy Agreement/Power of Attorney

Pursuant to the proxy agreement between Baidu Online and the shareholders of Baidu Netcom, the shareholders of Baidu Netcom agreed to entrust all the rights to exercise their voting power and any other rights as shareholders of Baidu Netcom to the person(s) designated by Baidu Online. The shareholders of Baidu Netcom have each executed an irrevocable power of attorney to appoint the person(s) designated by Baidu Online as their attorney-in-fact to vote on their behalf on all matters requiring shareholder approval. The proxy agreement would be in effect for an unlimited term unless terminated in writing by Baidu Online. The power of attorney would be in effect for as long as the shareholders of Baidu Netcom hold any equity interests in Baidu Netcom.

Each of the proxy agreements or shareholder voting rights trust agreements amongst Baidu Online or other subsidiaries and the shareholders of Beijing Perusal and other VIEs contains substantially the same terms as those described above. Each of the proxy agreements will be in effect for an unlimited term unless terminated in writing by Baidu Online or other subsidiaries. Each of the powers of attorney will be in effect for as long as the shareholder of Beijing Perusal or other VIEs, including iQIYI VIEs, holds any equity interests in Beijing Perusal or other VIEs, including iQIYI VIEs, as the case may be.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

Operating Agreement

Pursuant to the operating agreement amongst Baidu Online, Baidu Netcom and the shareholders of Baidu Netcom, Baidu Online provides guidance and instructions on Baidu Netcom's daily operations and financial affairs. Baidu Online has the power to appoint senior executives of Baidu Netcom. The shareholders of Baidu Netcom must appoint the candidates recommended by Baidu Online as their representatives on Baidu Netcom's board of directors. In addition, Baidu Online agrees to guarantee Baidu Netcom's performance under any agreements or arrangements relating to Baidu Netcom's business arrangements with any third party. In return, Baidu Netcom agrees that without the prior consent of Baidu Online, Baidu Netcom will not engage in any transactions that could materially affect the assets, liabilities, rights or operations of Baidu Netcom, including, without limitation, incurrence or assumption of any indebtedness, sale or purchase of any assets or rights, incurrence of any encumbrance on any of its assets or intellectual property rights in favor of a third party or transfer of any agreements relating to its business operation to any third party. The agreement will be in effect for an unlimited term, until the term of business of Baidu Online or Baidu Netcom expires and extension is denied by the relevant approval authorities.

The operating agreement amongst Baidu Online, Beijing Perusal and its shareholders contains substantially the same terms as those described above.

Pursuant to the amended and restated business operation agreement amongst Beijing QIYI Century, Beijing iQIYI and its shareholder, Beijing QIYI Century provides guidance and instructions on Beijing iQIYI's daily operations and financial affairs. In addition, Beijing QIYI Century agrees to guarantee Beijing iQIYI's performance under any agreements or arrangements relating to Beijing iQIYI's business arrangements with any third party. The agreement can only be unilaterally revoked by Beijing QIYI Century. The initial term of the agreement is ten years, which has been extended, and can be further renewed at Beijing QIYI Century's discretion.

Exclusive Technology Consulting and Services Agreement

Pursuant to the exclusive technology consulting and services agreement between Baidu Online and Baidu Netcom, Baidu Online has the exclusive right to provide technology consulting and services related to, among other things, the maintenance of servers, software development, design of advertisements, and e-commerce technical services to Baidu Netcom. Baidu Online owns the intellectual property rights resulting from the performance of this agreement. Baidu Netcom agrees to pay service fees to Baidu Online and Baidu Online has the right to adjust the service fees at its sole discretion without the consent of Baidu Netcom. The agreement will be in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities.

Each of the exclusive technology consulting and services agreements between Baidu Online or other subsidiaries and Beijing Perusal or other VIEs, including iQIYI VIEs, contains substantially the same terms as those described above, except the basis of determining the service fees may differ and that the initial term of the exclusive technology consulting and services agreement between Beijing QIYI Century and Beijing iQIYI dated November 23, 2011 is ten years, and has been extended.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

License Agreements

Baidu Online and Baidu Netcom entered into a software license agreement and a web layout copyright license agreement (collectively, the "License Agreements"). Pursuant to the License Agreements between Baidu Online and Baidu Netcom, Baidu Online has granted to Baidu Netcom the right to use (including but not limited to) a software license and a web layout copyright license. Baidu Netcom may only use the licenses in its own business operations. Baidu Online has the right to adjust the service fees at its sole discretion. The software license agreement and web layout copyright license agreement were renewed since their original expiration and would be in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities.

Baidu Online entered into web layout copyright license agreements with Beijing Perusal. Each of the license agreements between the Baidu Online and Beijing Perusal or other VIEs contains substantially the same terms as those described above. Each of the web layout copyright license agreements was renewed in 2013 and would be in effect for an unlimited term, until the term of business of one party expires and extension is denied by the relevant approval authorities.

Pursuant to the trademark license agreement and the software usage license agreement amongst Beijing QIYI Century and Beijing iQIYI effective November 23, 2011, Beijing QIYI Century granted a non-exclusive and non-transferable license, without sublicensing rights, to Beijing iQIYI to use its trademarks and software. Beijing iQIYI may only use the licenses in its own business operations. Beijing QIYI Century has the right to adjust the service fees at its sole discretion. The initial term of the two agreements is five years and the software usage license agreement may be extended upon the written consent of Beijing QIYI Century. The trademark license agreement is automatically extended for successive one-year periods after its expiration unless Beijing QIYI Century early terminates the agreement in accordance with the provisions of the agreement. The software usage license agreement was extended for another five years after its initial term, and was extended for another ten years in December 2020.

Business Cooperation Agreement

Pursuant to the business cooperation agreement amongst Beijing QIYI Century and Beijing iQIYI effective November 23, 2011, Beijing iQIYI agrees to provide Beijing QIYI Century with services, including internet information services, online advertising and other services reasonably necessary within the scope of Beijing QIYI Century's business. Beijing iQIYI agrees to use, technology services provided by Beijing QIYI Century on its website, including but not limited to, P2P download and video on-demand systems. Beijing QIYI Century agrees to pay specified service fees to Beijing iQIYI as consideration for the internet information services and other services provided by Beijing iQIYI. Beijing iQIYI has the right to waive the service fees at its discretion. The initial term of this agreement is ten years, which has been extended, and can be further renewed at Beijing QIYI Century's discretion.

Equity Pledge Agreement

Pursuant to the equity pledge agreement between Baidu Online and the shareholders of Baidu Netcom, the shareholders of Baidu Netcom pledged all of their equity interests in Baidu Netcom to Baidu

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

Equity Pledge Agreement—continued

Online to guarantee their obligations under the loan agreement and Baidu Netcom's performance of its obligations under the exclusive technology consulting and services agreement. If Baidu Netcom or its shareholders breach their respective contractual obligations, Baidu Online, as the pledgee, will be entitled to certain rights, including the right to sell the pledged equity interests. The shareholders of Baidu Netcom agreed not to dispose of the pledged equity interests or take any actions that would prejudice Baidu Online's interest. The equity pledge agreement will expire two years after expiration of the term or the fulfillment by Baidu Netcom and its shareholders of their respective obligations under the exclusive technology consulting and services agreement and the loan agreement.

Each of the equity pledge agreements amongst Baidu Online or other subsidiaries and the shareholders of Beijing Perusal or other VIEs, including iQIYI VIEs, contains substantially the same terms, including its term to expiration, as those described above.

Through the design of the aforementioned agreements, the shareholders of the VIEs effectively assigned their full voting rights to Baidu Online, which gives Baidu Online the power to direct the activities that most significantly impact the VIEs' economic performance. Baidu Online obtains the ability to approve decisions made by the VIEs and the ability to acquire the equity interests in the VIEs when permitted by PRC law. Baidu Online is obligated to absorb losses or receive economic benefits of the VIEs that could potentially be significant to the VIEs through providing unlimited financial support to the VIEs or is entitled to receive economic benefits from the VIEs that could potentially be significant to the VIEs through the exclusive technology consulting and service fees. As a result of these contractual agreements, Baidu Online is determined to be the primary beneficiary of the VIEs. Despite the lack of technical majority ownership, there exists a parent-subsidiary relationship between the Company and the VIEs through these contractual agreements, and the Company consolidates the VIEs through Baidu Online.

Through the Contractual Arrangements, the shareholders of the VIEs effectively assigned all of their voting rights underlying their equity interest in iQIYI VIEs to iQIYI. In addition, through the other exclusive agreements, which consist of the operation agreements, business cooperating agreement, exclusive technology consulting and services agreements and trademark and software usage license agreements, iQIYI, through its wholly-owned subsidiaries in the PRC, have the right to receive economic benefits from iQIYI VIEs that potentially could be significant to iQIYI VIEs. Lastly, through the commitment letters, iQIYI has the obligation to absorb losses of iQIYI VIEs that could potentially be significant to iQIYI VIEs. Therefore, iQIYI is considered the primary beneficiary of iQIYI VIEs and consolidates iQIYI VIEs and their subsidiaries.

In March 2018, the contractual agreements for certain VIEs, including Baidu Netcom and Beijing Perusal, were amended to include the following terms:

(a) Exclusive equity purchase and transfer option agreement

The Company has (i) an exclusive option to purchase, when and to the extent permitted under PRC laws, all or part of the equity interests in the VIE or all or part of the assets held by the VIE, (ii) an exclusive right to cause the nominee shareholders to transfer their equity interest in the VIE to the Company or any designated person and (iii) an obligation to provide unlimited financial

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

Equity Pledge Agreement—continued

support to the VIEs when the VIEs become in need of any form of reasonable financial support in the normal operation of business. If the VIEs were to incur any loss and as a result cannot repay any loans from the Company, the Company will unconditionally forgive any such loans to the VIEs upon provision by the VIEs of sufficient proof for its loss and incapacity to repay.

(b) Proxy Agreements/Power of Attorney

The appointment of any individuals to exercise the powers and rights assigned pursuant to the Proxy Agreement requires the approval of the Company. All the activities in relation to such powers and rights assigned are directed and approved by the Company. The shareholders of the VIEs agreed to entrust all the rights to exercise their voting power and any other rights as shareholders of the VIEs to the person(s) designated by the Company. The shareholders of the VIEs have each executed an irrevocable power of attorney to appoint the person(s) designated by the Company as their attorney-in-fact to vote on their behalf on all matters requiring shareholder approval.

As a result, the power and the rights pursuant to the Proxy Agreements have since been effectively reassigned from Baidu Online to the Company which has the power to direct the activities of the VIEs that most significantly impact the VIEs' economic performance. The Company or its subsidiaries is also obligated to absorb the expected losses or receive economic benefits of the VIE through the agreements mentioned above. Therefore, the Company has replaced Baidu Online as the primary beneficiary of Baidu Netcom and Beijing Perusal since March 2018. As the VIEs were subject to indirect control by the Company through its subsidiaries immediately before and direct control immediately after the contractual agreements were amended, the change of the primary beneficiary of the VIEs was accounted for as a common control transaction based on the carrying amount of the net assets transferred.

In the opinion of the Company's legal counsel, (i) the ownership structure relating to the VIEs of the Company is in compliance with existing PRC laws and regulations; (ii) the contractual arrangements entered into by the Company, the corresponding subsidiaries in the PRC, the VIEs and their respective shareholders are valid, binding and enforceable, and will not result in any violation of PRC laws or regulations currently in effect; and (iii) the execution, delivery and performance of the contractual arrangements does not result in any violation of the provisions of the articles of association or business licenses of the corresponding subsidiaries in the PRC or the VIEs.

However, uncertainties in the PRC legal system could cause the Company's current ownership structure to be found in violation of any existing and/or future PRC laws or regulations and could limit the Company's ability, through the Primary Beneficiaries, to enforce its rights under these contractual arrangements. Furthermore, shareholders of the VIEs may have interests that are different with those of the Company, which could potentially increase the risk that they would seek to breach the existing terms of the aforementioned agreements.

In addition, if the current structure or any of the contractual arrangements were found to be in violation of any existing or future PRC laws, the Company may be subject to penalties, which may include but not be limited to, the cancellation or revocation of the Company's business and operating licenses, being required to restructure the Company's operations or discontinue the Company's operating activities. The imposition of any of these or other penalties may result in a material and adverse effect on the Company's ability to conduct its operations. In such case, the Company may not be able to operate or control the VIEs, which may result in deconsolidation of the VIEs.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

Equity Pledge Agreement—continued

The following tables set forth the financial statement balances and amounts of the VIEs and their subsidiaries were included in the consolidated financial statements after the elimination of intercompany balances and transactions among VIEs and their subsidiaries within the Group.

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Assets			
Cash and cash equivalents	1,895	2,313	2,348
Short-term investments, net	2,912	1,892	6,930
Accounts receivable, net	3,750	5,023	6,614
Others	4,275	5,750	8,097
Total current assets	12,832	14,978	23,989
Fixed assets, net	4,183	3,839	4,978
Intangible assets, net	4,032	1,404	1,499
Licensed copyrights, net	2,018	1,641	993
Produced content, net	3,735	4,355	6,130
Long-term investments, net	18,923	21,825	20,707
Operating lease right-of-use assets	—	6,525	6,460
Others	6,886	7,970	7,717
Total non-current assets	39,777	47,559	48,484
Total	52,609	62,537	72,473
Liabilities			
Accounts payable and accrued liabilities	13,889	15,774	15,420
Customer deposits and deferred revenue	3,704	4,841	6,047
Operating lease liabilities	—	2,110	2,068
Others	1,219	1,967	1,516
Total current third-party liabilities	18,812	24,692	25,051
Operating lease liabilities	—	4,227	4,376
Others	2,417	2,068	1,143
Total non-current third-party liabilities	2,417	6,295	5,519
Amounts due to the Company and its non-VIE subsidiaries, net	22,398	17,121	19,592
Total	43,627	48,108	50,162

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Total revenues	33,992	51,988	52,666
Net (loss) income	(6,834)	(2,950)	2,091
Net cash provided by operating activities	2,396	1,649	4,616
Net cash used in investing activities	(16,674)	(4,829)	(8,382)
Net cash provided by financing activities	11,916	3,604	3,859

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

Equity Pledge Agreement—continued

As of December 31, 2020 there was no pledge or collateralization of the VIEs' assets that can only be used to settle obligations of the VIEs, other than aforementioned in the equity pledge agreements and collateralization of a VIE's office building, restricted cash as described in Note 12. The amount of the net assets of the VIEs was RMB22.3 billion as of December 31, 2020. The creditors of the VIEs' third-party liabilities did not have recourse to the general credit of the Company in normal course of business. The Company did not provide or intend to provide financial or other supports not previously contractually required to the VIEs during the years presented.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Principles of Consolidation

The consolidated financial statements are prepared in accordance with U.S. GAAP.

Effective on March 1, 2021, the Company has changed its authorized share capital by one-to-eighty subdivision of Shares (the "Share Subdivision"). Each share classified as Class A ordinary shares, Class B ordinary shares and preferred shares of a par value of US$0.00005 each in the share capital of the Company (including authorized issued and unissued Class A ordinary shares, Class B ordinary shares and preferred shares) be sub-divided into 80 shares of a par value of US$0.000000625 each. Following the Share Subdivision, the authorized share capital of the Company will be US$43,520 divided into 66,000,000,000 Class A ordinary shares of a par value of US$0.000000625 each, 2,832,000,000 Class B ordinary shares of a par value of US$0.000000625 each and 800,000,000 preferred shares of a par value of US$0.000000625 each. The number of issued and unissued Class A ordinary shares, Class B ordinary shares and preferred shares as disclosed elsewhere in the consolidated financial statements are presented on a basis after taking into account the effects of the Share Subdivision and have been retrospectively adjusted, where applicable. Simultaneously with the Share Subdivision, the change in ratio of the Company's ADS to Class A ordinary share (the "ADS Ratio Change") also became effective. Following the ADS Ratio Change, each ADS now represents eight Class A ordinary shares. Previously, ten ADSs represented one Class A ordinary share. Given that the ADS Ratio Change was exactly proportionate to the Share Subdivision, no new ADSs were issued to any ADS holder and the total number of the Company's outstanding ADSs remains unchanged immediately after the Share Subdivision and the ADS Ratio Change became effective.

The consolidated financial statements include the financial statements of the Company, its subsidiaries, VIEs and subsidiaries of the VIEs. All inter-company transactions and balances between the Company, its subsidiaries, VIEs and subsidiaries of the VIEs are eliminated upon consolidation. The Company included the results of operations of acquired businesses from the respective dates of acquisition.

(b) Recently adopted accounting pronouncements

<u>Adoption of ASU 2016-13</u>

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13, *Financial Instruments – Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13") which requires the measurement and recognition of expected credit losses for financial assets held at amortized cost and is codified in ASC Topic 326, *Financial Instruments – Credit Losses* ("ASC 326"). ASU 2016-13 replaces the existing

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(b) Recently adopted accounting pronouncements—continued

Adoption of ASU 2016-13—continued

incurred loss impairment model with an expected loss methodology, which will result in more timely recognition of credit losses. Further, ASU 2016-13 modified the impairment model of available-for-sale debt securities and required the company to determine whether all or a portion of the unrealized loss on an available-for-sale debt security is a credit loss. The Company adopted ASU 2016-13 on January 1, 2020, using a modified retrospective transition method and did not restate the comparable periods, which resulted in a cumulative-effect adjustment to decrease the opening balance of retained earnings on January 1, 2020 by RMB314 million, including the allowance for credit losses for account receivable, contract assets and debt securities.

Adoption of ASU 2017-04

In January 2017, the FASB issued ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment*, which simplifies the accounting for goodwill impairment by eliminating Step two from the goodwill impairment test. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess, versus determining an implied fair value in Step two to measure the impairment loss. The Company adopted this guidance on a prospective basis on January 1, 2020 with no material impact on its consolidated financial statements as a result of adopting the new standard.

Adoption of ASU 2019-02

In March 2019, the FASB issued ASU No. 2019-02, *Improvements to Accounting for Costs of Films and License Agreements for Program Materials* ("ASU 2019-02"), which includes the following major changes from previous legacy GAAP that are applicable to the Company:

- The content distinction for capitalization of production costs of an episodic television series and production costs of films is removed;
- Entities are required to test films and license agreements for program material for impairment at a film group level when the film or license agreements are predominantly monetized with other films and license agreements;
- Entities shall assess estimates of the use of a film in a film group and account for such changes prospectively;
- Cash outflows for the costs incurred to obtain rights for both produced and licensed content are required to be reported as operating cash outflows in the statement of cash flows.

The Company adopted ASU 2019-02 on January 1, 2020, using a prospective transition method. For the year ended December 31, 2020, cash outflows for the costs incurred to acquire licensed copyrights are reported as operating cash outflows in the Company's consolidated statement of cash flows whereas they were reported as investing cash outflows prior to the adoption of ASU 2019-02. There was no material impact to the consolidated balance sheet or consolidated statement of comprehensive income (loss). See the Company's updated accounting policies for Produced Content and Licensed Copyrights for further details.

Cash paid for content, which includes both licensed copyrights and produced content, is RMB17.0 billion for the year ended December 31, 2020.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(c) Use of Estimates

The preparation of the financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Management evaluates estimates, including those related to the standalone selling prices of performance obligations and amounts of variable considerations of revenue contracts, the allowances for credit losses of accounts receivable, contract assets and debt securities, fair values of certain debt and equity investments, future viewership consumption patterns and useful lives of licensed copyrights and produced content, future revenues generated by the broadcasting and sublicensing rights of content assets (licensed and produced), fair values of licensed copyrights and produced contents monetized as a film group or individually, fair value of nonmonetary content exchanges, impairment of long-lived assets, long-term investments and goodwill, the purchase price allocation and fair value of pre-existing equity interests, noncontrolling interests and redeemable noncontrolling interests with respect to business combinations, deferred tax valuation allowance and the fair value of share-based awards and estimated forfeitures for share-based awards among others. Management bases the estimates on historical experience and on various other assumptions that are believed to be reasonable, the results of which form the basis for making judgments about the carrying values of assets and liabilities. Actual results could differ from these estimates.

(d) Foreign Currency

The Company's functional currency is the US$. The Company's subsidiaries, VIEs and subsidiaries of the VIEs determine their functional currencies based on the criteria of ASC Topic 830, *Foreign Currency Matters*. The Company uses the RMB as its reporting currency. The Company uses the exchange rate as of the balance sheet date to translate its assets and liabilities and the average daily exchange rate for each month to translate its income and expense items to reporting currency. Any translation gains (losses) are recorded in other comprehensive income (loss). Transactions denominated in foreign currencies are measured and recorded into the functional currency at the exchange rates prevailing on the transaction dates. Assets and liabilities denominated in foreign currencies other than functional currency are remeasured into the functional currency at the exchange rates prevailing at the balance sheet date. Exchange gains and losses are included in earnings as a component of "Other income (loss), net."

(e) Segment Reporting

As of December 31, 2018, 2019 and 2020, the Company had two reportable segments, Baidu Core and iQIYI. Baidu Core mainly provides search-based, feed-based and other online marketing services, as well as products and services from its new AI initiatives. iQIYI is an online entertainment service provider that offers original, professionally produced and partner-generated content on its platform. In early April 2018, iQIYI completed its initial public offering ("IPO") on the Nasdaq Global Market.

The Company's chief executive officer, who has been identified as the chief operating decision marker ("CODM"), reviews the operating results of Baidu Core and iQIYI, to allocate resources and assess the Company's performance. Accordingly, the financial statements include segment information which reflects the current composition of the reportable segments in accordance with ASC Topic 280, *Segment Reporting.*

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(f) Business Combinations

The Company accounts for its business combinations using the purchase method of accounting in accordance with ASC Topic 805, *Business Combinations*. The purchase method of accounting requires that the consideration transferred to be allocated to the assets, including separately identifiable assets and liabilities the Company acquired, based on their estimated fair values. The consideration transferred in an acquisition is measured as the aggregate of the fair values at the date of exchange of the assets given, liabilities incurred, and equity instruments issued as well as the contingent considerations as of the acquisition date. The costs directly attributable to the acquisition are expensed as incurred. Identifiable assets, liabilities and contingent liabilities acquired or assumed are measured separately at their fair value as of the acquisition date, irrespective of the extent of any noncontrolling interests. The excess of (i) the total of cost of acquisition, fair value of the noncontrolling interests and acquisition date fair value of any previously held equity interests in the acquiree over (ii) the fair value of the identifiable net assets of the acquiree, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in earnings.

In a business combination achieved in stages, the Company remeasures its previously held equity interest in the acquiree immediately before obtaining control at its acquisition-date fair value and the re-measurement gain or loss, if any, is recognized in “Others, net” in the consolidated statements of comprehensive income (loss).

The determination and allocation of fair values to the identifiable assets acquired, liabilities assumed and noncontrolling interests is based on various assumptions and valuation methodologies requiring considerable judgment from management. The most significant variables in these valuations are discount rates, the number of years on which to base the cash flow projections, as well as the assumptions and estimates used to determine the cash inflows and outflows. The Company determines discount rates to be used based on the risk inherent in the related activity's current business model and industry comparisons.

(g) Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents primarily consist of cash, money market funds, investments in interest bearing demand deposit accounts, time deposits and highly liquid investments with original maturities of three months or less from the date of purchase and are stated at cost which approximates their fair value.

Restricted cash mainly represents escrow amount deposited for a business acquisition and cash pledged for short-term facilities.

(h) Accounts Receivable and Contract Assets, net

Accounts receivable are recognized and carried at the original invoiced amount less an allowance for credit losses. The Company maintains an allowance for credit losses in accordance with ASC 326 and records the allowance for credit losses as an offset to accounts receivable and contract assets, and the estimated credit losses charged to the allowance is classified as “Selling, general and administrative” in the consolidated statements of comprehensive income (loss).

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(h) Accounts Receivable and Contract Assets, net—continued

The Company assesses collectability by reviewing accounts receivable and contract assets on a collective basis where similar characteristics exist, primarily based on similar business line, service or product offerings and on an individual basis when the Company identifies specific customers with known disputes or collectability issues. In determining the amount of the allowance for credit losses, the Company considers historical collectability based on past due status, the age of the accounts receivable balances and contract assets balances, credit quality of the Company's customers based on ongoing credit evaluations, current economic conditions, reasonable and supportable forecasts of future economic conditions, and other factors that may affect the Company's ability to collect from customers.

(i) Receivables from Online Payment Agencies, net

Receivables from online payment agencies are funds due from the third-party online payment service providers for clearing transactions. Funds were paid or deposited by customers or users through these online payment agencies for services provided by the Company. The Company considers and monitors the credit worthiness of the third-party payment service providers and recognizes credit losses based on ongoing credit evaluations. Receivable balances are written off when they are deemed uncollectible. The balances are included in "Other current assets, net" on the consolidated balance sheets. As of December 31, 2018, 2019 and 2020, no allowance for credit losses was provided for the receivables from online payment agencies.

(j) Investments

Short-term investments

All highly liquid investments with original maturities less than twelve months are classified as short-term investments. Investments that are expected to be realized in cash during the next twelve months are also included in short-term investments.

The Company accounts for short-term debt investments in accordance with ASC Topic 320, *Investments—Debt Securitie*s ("ASC 320"). The Company classifies the short-term investments in debt as held-to-maturity, trading or available-for-sale whose classification determines the respective accounting methods stipulated by ASC 320. Dividend and interest income, including amortization of the premium and discount arising at acquisition, for all categories of investments in securities are included in earnings. Any realized gains or losses on the sale of the short-term investments are determined on a specific identification method, and such gains and losses are reflected in earnings during the period in which gains or losses are realized.

Securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and stated at amortized cost less allowance for credit losses.

Securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities, in accordance with ASC 320. Unrealized holding gains and losses for trading securities are included in earnings.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(j) Investments—continued

Short-term investments—continued

Debt investments not classified as trading or as held-to-maturity are classified as available-for-sale debt securities, which are reported at fair value, with unrealized gains and losses recorded in "Accumulated other comprehensive (loss) income" on the consolidated balance sheets.

The allowance for credit losses of the held-to-maturity debt securities reflects the Company's estimated expected losses over the contractual lives of the held-to-maturity debt securities and is charged to "Others, net" in the consolidated statements of comprehensive income (loss). Estimated allowances for credit losses are determined by considering reasonable and supportable forecasts of future economic conditions in addition to information about past events and current conditions. As of December 31, 2018, 2019 and 2020, the allowance for credit losses provided for the held-to-maturity debt securities held by the Company was insignificant.

Long-term investments

The Company's long-term investments consist of equity investments with readily determinable fair value, equity method investments, equity investments without readily determinable fair value, other investments accounted for at fair value, held-to-maturity debt investments and available-for-sale debt investments.

The Company adopted ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"), codified in ASC Topic 321, *Investments—Equity Securities* ("ASC 321") from January 1, 2018 and the cumulative effect of RMB1.9 billion representing the unrealized gains of available-for-sale equity securities before the adoption was recorded as an adjustment to the opening retained earnings. Pursuant to ASC 321, equity investments, except for those accounted for under the equity method, those that result in consolidation of the investee and certain other investments, are measured at fair value, and any changes in fair value are recognized in earnings. For equity securities without readily determinable fair value and do not qualify for the existing practical expedient in ASC Topic 820, *Fair Value Measurements and Disclosures* ("ASC 820") to estimate fair value using the net asset value per share (or its equivalent) of the investment, the Company elected to use the measurement alternative to measure those investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any. Significant judgments are required to determine (i) whether observable price changes are orderly transactions and identical or similar to an investment held by the Company; and (ii) the selection of appropriate valuation methodologies and underlying assumptions, including expected volatility and the probability of exit events as it relates to liquidation and redemption features used to measure the price adjustments for the difference in rights and obligations between instruments. Equity securities with readily determinable fair values are measured at fair value, and any changes in fair value are recognized in "Others, net" in the consolidated statements of comprehensive income (loss).

For equity investments measured at fair value with changes in fair value recorded in earnings, the Company does not assess whether those securities are impaired. For equity investments that the Company elects to use the measurement alternative, the Company makes a qualitative assessment considering impairment indicators to evaluate whether investments are impaired at each reporting date.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(j) Investments—continued

Long-term investments—continued

Impairment indicators considered include, but are not limited to, a significant deterioration in the earnings performance or business prospects of the investee, including factors that raise significant concerns about the investee's ability to continue as a going concern, a significant adverse change in the regulatory, economic, or technologic environment of the investee and a significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates. If a qualitative assessment indicates that the investment is impaired, the entity has to estimate the investment's fair value in accordance with the principles of ASC 820. If the fair value is less than the investment's carrying value, the Company recognizes an impairment loss in net income equal to the difference between the carrying value and fair value.

Investments in entities in which the Company can exercise significant influence but does not own a majority equity interest or control are accounted for using the equity method of accounting in accordance with ASC Topic 323, *Investments-Equity Method and Joint Ventures* ("ASC 323"). Under the equity method, the Company initially records its investment at cost and the difference between the cost of the equity investee and the amount of the underlying equity in the net assets of the equity investee is accounted for as if the investee were a consolidated subsidiary. The Company subsequently adjusts the carrying amount of its investment to recognize the Company's proportionate share of each equity investee's net income or loss into earnings. The Company will discontinue applying the equity method if an investment (plus additional financial support provided to the investee, if any) has been reduced to zero. When the Company has other investments in its equity-method investee and is not required to advance additional funds to that investee, the Company would continue to report its share of equity method losses in its consolidated statements of comprehensive income (loss) after its equity-method investment in ordinary shares has been reduced to zero, to the extent of and as an adjustment to the adjusted basis of the Company's other investments in the investee. Such losses are first applied to those investments of a lower liquidation preference before being further applied to the investments of a higher liquidation preference. The Company adopted a one-quarter lag in reporting for its share of equity income/(loss) in all of its equity method investees.

The Company evaluates its equity method investments for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying amount of the investment might not be recoverable. Factors considered by the Company when determining whether an investment has been other-than-temporarily-impaired, include, but are not limited to, the length of the time and the extent to which the market value has been less than cost, the financial performance and near-term prospect of the investee, and the Company's intent and ability to retain the investment until the recovery of its cost. An impairment loss on the equity method investments is recognized in earnings when the decline in value is determined to be other-than-temporary and is allocated to the individual net assets underlying equity method investments in the following order: 1) reduce any equity method goodwill to zero; 2) reduce the individual basis differences related to the investee's long-lived assets pro rata based on their amounts relative to the overall basis difference at the impairment date; and 3) reduce the individual basis difference of the investee's remaining assets in a systematic and rational manner.

In accordance with ASC Subtopic 946-320, *Financial Services—Investment Companies, Investments—Debt and Equity Securities* ("ASC 946-320"), the Company accounts for long-term equity investments

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(j) Investments—continued

Long-term investments—continued

in unlisted companies held by consolidated investment companies at fair value. These investments were initially recorded at their transaction price net of transaction costs, if any. Fair value of these investments are re-measured at each reporting date in accordance with ASC 820.

Available-for-sale debt investments are convertible debt instruments issued by private companies and investment in preferred shares that is redeemable at the Company's option, which are measured at fair value. Interest income is recognized in earnings. All other changes in the carrying amount of these debt investments are recognized in other comprehensive income (loss).

(k) Fair Value Measurements of Financial Instruments

Financial instruments are in the form of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, amounts due from and due to related parties, other receivables, long-term investments, short-term loans, accounts payable and accrued liabilities, customer advances and deposits, derivative instruments, notes payable, convertible senior notes and long-term loans. Except for the current portion of long-term loans and notes payables, the carrying values of the aforementioned financial instruments included in current assets and liabilities approximate their respective fair values because of their general short maturities. The carrying amounts of long-term loans approximate fair values as the related interest rates currently offered by financial institutions for similar debt instruments of comparable maturities. The fair value of long-term investments, notes payable and convertible senior notes that are not reported at fair value are disclosed in Note 25.

(l) Fixed Assets

Fixed assets are stated at cost less accumulated depreciation. Depreciation is recorded on a straight-line basis over the shorter of the estimated useful lives of the assets or the term of the related lease, as follows:

Office building	- 43 to 45 years
Office building related facility, machinery and equipment	- 15 years
Computer equipment	- 3 to 5 years
Office equipment	- 3 to 5 years
Vehicles	- 5 years
Leasehold improvements	- over the shorter of lease terms or estimated useful lives of the assets

Fixed assets have no estimated residual value except for the office building and its related facility, machinery and equipment, which have an estimated residual value of 4% of the cost.

Repair and maintenance costs are charged to expense as incurred, whereas the cost of renewals and betterments that extend the useful life of fixed assets are capitalized as additions to the related assets. Retirements, sales and disposals of assets are recorded by removing the cost and accumulated depreciation from the asset and accumulated depreciation accounts with any resulting gain or loss reflected in earnings. All direct and indirect costs that are related to the construction of fixed assets and

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(l) Fixed Assets—continued

incurred before the assets are ready for their intended use are capitalized as construction in progress. Construction in progress is transferred to specific fixed assets items and depreciation of these assets commences when they are ready for their intended use.

Interest costs are capitalized if they are incurred during the acquisition, construction or production of a qualifying asset and such costs could have been avoided if expenditures for the assets have not been made. Capitalization of interest costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Interest costs are capitalized until the assets are ready for their intended use. Interest costs capitalized for the years ended December 31, 2018, 2019 and 2020 were insignificant.

(m) Licensed Copyrights, net

Licensed copyrights consist of professionally-produced content such as films, television series, variety shows and other video content acquired from external parties. The license fees are capitalized and, unless prepaid, a corresponding liability is recorded when the cost of the content is known, the content is accepted by the Company in accordance with the conditions of the license agreement and the content is available for its first showing on the Company's websites. Licensed copyrights are presented on the consolidated balance sheets as current and non-current based on estimated time of usage.

The Company's licensed copyrights include the right to broadcast and in some instances, the right to sublicense. The broadcasting right, refers to the right to broadcast the content on its own websites and the sublicensing right, refers to the right to sublicense the underlying content to external parties. When licensed copyrights include both broadcasting and sublicensing rights, the content costs are allocated to these two rights upon initial recognition, based on the relative proportion of the estimated total revenues that will be generated by each right over its estimated useful lives.

For the right to broadcast the contents on its own websites that generates online advertising and membership services revenues, based on factors including historical and estimated future viewership patterns, the content costs are amortized using an accelerated method by content categories over the shorter of each content's contractual period or estimated useful lives within ten years, beginning with the month of first availability. Content categories accounting for most of the Group's content include newly released drama series, newly released movies, animations, library drama series and library movies. Estimates of future viewership consumption patterns and estimated useful lives are reviewed periodically, at least on an annual basis and revised, if necessary. Revisions to the amortization patterns are accounted for as a change in accounting estimate prospectively in accordance with ASC Topic 250, *Accounting Changes and Error Corrections* ("ASC 250").

For the right to sublicense the content to external parties that generates direct content distribution revenues, the content costs are amortized based on its estimated usage pattern and recorded as cost of revenues.

(n) Produced Content, net

The Company produces original content in-house and collaborates with external parties. Produced content primarily consists of films, episodic series, variety shows and animations. The costs incurred in

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(n) Produced Content, net—continued

the physical production of original content includes direct production costs, production overhead and acquisition costs. Production costs for original content that are predominantly monetized in a film group are capitalized and reported separately as non-current assets with caption of "Produced content, net" on the consolidated balance sheets. Production costs for original content predominantly monetized on its own are capitalized to the extent that they are recoverable from total revenues expected to be earned ("ultimate revenue"); otherwise, they are expensed as cost of revenues. Ultimate revenue estimates include revenue expected to be earned from all sources, including exhibition, licensing, or exploitation of produced content if the Company has demonstrated a history of earning such revenue. The Company estimates ultimate revenue to be earned during the estimated useful lives of produced content based on anticipated release patterns and historical results of similar produced content, which are identified based on various factors, including cast and crew, target audience and popularity. Produced content also includes cash expenditures made to acquire a proportionate share of certain rights to films including profit sharing, distribution and/or other rights. Exploitation costs are expensed as incurred.

Based on factors including historical and estimated future viewership consumption patterns, the Group amortizes film costs for produced content that is predominantly monetized in a film group. For produced content that is monetized on its own, the Group considers historical and estimated usage patterns to determine the pattern of amortization for film costs. Based on the estimated patterns, the Group amortizes produced content using an accelerated method over its estimated useful lives within ten years, beginning with the month of first availability and such costs are included in "Cost of revenues" in the consolidated statement of comprehensive income (loss).

(o) Change in accounting estimates of licensed copyrights and produced content

In 2020, the Company revised its estimation of the estimated future viewership consumption patterns and extended the estimated useful lives of its licensed copyrights and produced content to better reflect the usage of these content assets. As a result of these revisions, amortization expense decreased by RMB680 million, and net loss decreased by RMB680 million for the year ended December 31, 2020, respectively. The impact to basic and diluted EPS for the year ended December 31, 2020 was insignificant.

(p) Impairment of licensed copyrights and produced content

The Company's business model is mainly subscription and advertising based, as such the majority of the Company's content assets (licensed copyrights and produced content) are predominantly monetized with other content assets, whereas a smaller portion of the Company's content assets are predominantly monetized at a specific title level such as variety shows and investments in a proportionate share of certain rights to films including profit sharing, distribution and/or other rights. Because the identifiable cash flows related to content launched on the Company's Mainland China platform are largely independent of the cash flows of other content launched on the Company's overseas platform, the Company has identified two separate film groups. The Company reviews its film groups and individual content for impairment when there are events or changes in circumstances that indicate the fair value of a film group or individual content may be less than its unamortized costs. Examples of such events or changes in circumstances include, a significant adverse change in technological, regulatory, legal,

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(p) Impairment of licensed copyrights and produced content—continued

economic, or social factors, that could affect the fair value of the film group or the public's perception of a film or the availability of a film for future showings, a significant decrease in the number of subscribers or forecasted subscribers, or the loss of a major distributor, a change in the predominant monetization strategy of a film that is currently monetized on its own, actual costs substantially in excess of budgeted costs, substantial delays in completion or release schedules, or actual performance subsequent to release failing to meet expectations set before release such as a significant decrease in the amount of ultimate revenue expected to be recognized.

When such events or changes in circumstances are identified, the Company assesses whether the fair value of an individual content (or film group) is less than its unamortized film costs, determines the fair value of an individual content (or film group) and recognizes an impairment charge for the amount by which the unamortized capitalized costs exceed the individual content's (or film group's) fair value. The Company mainly uses a discounted cash flow approach to determine the fair value of an individual content or film group, for which the most significant inputs include forecasted future revenues, costs and operating expenses attributable to an individual content or the film group and the discount rate. An impairment loss attributable a film group is allocated to individual licensed copyrights and produced content within the film group on a pro rata basis using the relative carrying values of those assets as the Company cannot estimate the fair value of individual contents in the film group without undue cost and effort.

(q) Impact of COVID-19

During the year ended December 31, 2020, the Company's operations has been affected by the COVID-19 pandemic. The Company's online marketing revenues declined compared to the prior period mainly due to weakness in online advertising demand as its customers in certain industries are negatively impacted by COVID-19. The Company has also provided additional credit losses for accounts receivable and contract assets, recognized impairment charges on its long-term investments, intangible asset and content assets, and recorded its share of losses from equity method investees in the year ended December 31, 2020, due to the impact of COVID-19 and other factors. In addition, increased market volatility has contributed to larger fluctuations in the valuation of the Company's equity investments.

There are still uncertainties of COVID-19's future impact, and the extent of the impact will depend on a number of factors, including the duration and severity of COVID-19, possibility of a second wave in China, the development and progress of distribution of COVID-19 vaccine and other medical treatment, the potential change in user behavior, especially on internet usage due to the prolonged impact of COVID-19, the actions taken by government authorities, particularly to contain the outbreak, stimulate the economy to improve business condition especially for SMEs, almost all of which are beyond the Company's control. As a result, certain of the Company's estimates and assumptions, including the allowance for credit losses, the valuation of certain debt and equity investments, long-term investments, content assets and long-lived assets subject to impairment assessments, require significant judgments and carry a higher degree of variabilities and volatilities that could result in material changes to the Company's current estimates in future periods.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(r) Goodwill and Intangible Assets

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired in a business combination. The Company assesses goodwill for impairment in accordance with ASC Subtopic 350-20, *Intangibles—Goodwill and Other: Goodwill* ("ASC 350-20"), which requires that goodwill to be tested for impairment at the reporting unit level at least annually and more frequently upon the occurrence of certain events, as defined by ASC 350-20. As of December 31, 2018, 2019 and 2020, the Company has two reporting units, consisting of Baidu Core and iQIYI.

The Company has the option to assess qualitative factors first to determine whether it is necessary to perform the quantitative test in accordance with ASC 350-20. In the qualitative assessment, the Company considers primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. If the Company believes, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the quantitative impairment test described above is required. Otherwise, no further testing is required. The quantitative impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess.

The Company performed qualitative assessments for the reporting unit of Baidu Core in the years ended 2018, 2019 and 2020. Based on the requirements of ASC 350-20, the Company evaluated all relevant factors including, but not limited to, macroeconomic conditions, industry and market conditions, financial performance, and the share price of the Company. The Company weighed all factors in their entirety and concluded that it was not more-likely-than-not the fair value was less than the carrying amount of Baidu Core, and further impairment testing on goodwill was unnecessary as of December 31, 2018, 2019 and 2020.

The Company elected to choose to bypass the qualitative assessment and proceed directly to perform quantitative test for the reporting unit of iQIYI. Subsequent to iQIYI's IPO, the Company primarily considered the quoted market price of iQIYI's share to determine the fair value of the reporting unit. As of December 31, 2018, 2019 and 2020, the fair value of iQIYI exceeded its carrying amount, therefore, goodwill related to the iQIYI reporting unit was not impaired and the Company was not required to perform further testing.

On disposal of a portion of reporting unit that constitutes a business, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of a business within the reporting unit, the amount of goodwill disposed is measured on the basis of the relative fair value of the business disposed and the portion of the reporting unit retained. This relative fair value approach is not used when the business to be disposed was not integrated into the reporting unit after its acquisition, in which case the current carrying amount of the acquired goodwill should be included in the carrying amount of the business to be disposed.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(r) Goodwill and Intangible Assets—continued

Intangible assets

Intangible assets with finite lives are carried at cost less accumulated amortization. All intangible assets with finite lives are amortized using the straight-line method over their estimated useful lives.

Intangible assets have weighted average useful lives from the date of purchase as follows:

Trademarks	- 10 years
Technology	- 7 years
Intellectual property right	- 7 years
Online literature	- 8 years
Others	- 8 years

Intangible assets with indefinite useful life are not amortized and are tested for impairment annually or more frequently, if events or changes in circumstances indicate that they might be impaired in accordance with ASC Subtopic 350-30, *Intangibles-Goodwill and Other: General Intangibles Other than Goodwill* ("ASC 350-30").

Upon the initial application of ASU No. 2016-02, *Leases* (Topic 842) ("ASU 2016-02") on January 1, 2019, codified in ASC 842, *Leases* ("ASC 842"), land use rights were presented as operating lease right-of-use assets ("ROU assets"). Such amount was included in the opening balance of operating lease ROU assets as of January 1, 2019 with no adjustments made to the comparative periods.

(s) Impairment of Long-Lived Assets Other Than Goodwill

The Company evaluates long-lived assets, such as fixed assets and purchased or internally developed intangible assets with finite lives other than licensed copyrights and produced contents, for impairment whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable in accordance with ASC Topic 360, *Property, Plant and Equipment*. When such events occur, the Company assesses the recoverability of the asset group based on the undiscounted future cash flows the asset group is expected to generate and recognizes an impairment loss when estimated undiscounted future cash flows expected to result from the use of the asset group plus net proceeds expected from disposition of the asset group, if any, is less than the carrying value of the asset group. If the Company identifies an impairment, the Company reduces the carrying amount of the asset group to its estimated fair value based on a discounted cash flow approach or, when available and appropriate, to comparable market values and the impairment loss, if any, is recognized in "Others, net" in the consolidated statements of comprehensive income (loss). The Company uses estimates and judgments in its impairment tests and if different estimates or judgments had been utilized, the timing or the amount of any impairment charges could be different. Asset groups to be disposed of would be reported at the lower of the carrying amount or fair value less costs to sell, and no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

(t) Leases

The Company adopted ASC 842 from January 1, 2019 by using the modified retrospective method and did not restate the figures presented for the 2018 comparative year. The Company has elected the

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(t) Leases—continued

package of practical expedients, which allows the Company not to reassess (1) whether any expired or existing contracts as of the adoption date are or contain a lease, (2) lease classification for any expired or existing leases as of the adoption date and (3) initial direct costs for any expired or existing leases as of the adoption date. The Company also elected the practical expedient not to separate lease and non-lease components of contracts, except for bandwidth service included in internet data center ("IDC") facilities lease contracts. Lastly, the Company elected the short-term lease exemption for all contracts with lease terms of 12 months or less.

The Company determines if an arrangement is a lease or contains a lease at lease inception. For operating leases, the Company recognizes an ROU asset and a lease liability based on the present value of the lease payments over the lease term on the consolidated balance sheets at commencement date. For finance leases, assets are included in "Other non-current assets" on the consolidated balance sheets. As most of the Company's leases do not provide an implicit rate, the Company estimates its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The incremental borrowing rate is estimated to approximate the interest rate on a collateralized basis with similar terms and payments, and in economic environments where the leased asset is located. The Company's leases often include options to extend and lease terms include such extended terms when the Company is reasonably certain to exercise those options. Lease terms also include periods covered by options to terminate the leases when the Company is reasonably certain not to exercise those options. Lease expense is recorded on a straight-line basis over the lease term.

(u) Revenue Recognition

The Company adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"), codified in ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), from January 1, 2018 using the modified retrospective method. The cumulative effect of adopting ASC 606 resulted in an increase of RMB933 million to the opening balance of retained earnings at January 1, 2018, which is primarily related to the Company's online marketing revenues.

Revenue is recognized when control of promised goods or services is transferred to the Company's customers in an amount of consideration to which an entity expects to be entitled to in exchange for those goods or services. Revenue is recorded net of valued added taxes ("VAT").

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(u) Revenue Recognition—continued

The Company's revenue recognition policies effective on the adoption date of ASC 606 are as follows:

Performance-based online marketing services

Cost-per-click ("CPC")

The Company's auction-based P4P platform enables customers to bid for priority placement of paid sponsored links and reach users who search for information related to their products or services. P4P online marketing customers can choose from search-based and feed-based online marketing services, and select criteria for their inventory purchase, such as daily spending limit and user profile targeted, including, but not limited to, users from specific regions in China and users online during specific time period. Revenue is recognized when all of the revenue recognition criteria are met, which is generally when a user clicks on one of the customer-sponsored links or feed-based marketing.

Other performance-based online marketing services

To the extent the Company provides online marketing services based on performance criteria other than cost-per-click, such as the number of downloads (and user registration) of mobile apps and the pre-determined ratios of completed transaction volumes, revenue is recognized when the specified performance criteria are met along with the satisfaction of other applicable revenue recognition criteria.

Online display advertising services

The Company provides online display advertising services to its customers by integrating text description, image and/or video, and displaying the advertisement in the search result, in Baidu Feed or on other properties. The Company recognizes revenue on a pro-rata basis over the contractual term for cost per time advertising arrangements, commencing on the start date of the display advertisement, or based on the number of times that the advertisement has been displayed for cost per thousand impressions advertising arrangements.

For advertisements to be displayed in different spots, placed under different forms and displayed at different times, the Company would evaluate all of the performance obligations in the arrangement to determine whether each performance obligation is distinct. Consideration is allocated to each performance obligation based on its standalone selling price at contract inception. The Company generally determines standalone selling prices based on the prices charged to customers on a standalone basis or estimates it using an expected cost plus margin approach. If a promised good or service does not meet the criteria to be considered distinct, it is combined with other promised goods or services until a distinct bundle of goods or services exists.

Baidu Union online marketing services

Baidu Union is a program through which the Company expands distribution of its customers' sponsored links or advertisements by leveraging the traffic of Baidu Union partners' online properties.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(u) Revenue Recognition—continued

Baidu Union online marketing services—continued

The Company acquires traffic from Baidu Union partners and is responsible for service fulfillment, pricing and bearing inventory risks. The services which the Company provided to customers through Baidu Union partners' online properties include CPC, other performance-based online marketing services and online display advertising services. These services are provided in the same way to our customers as those through Baidu's own platforms or properties. As principal, the Company recognizes revenue from Baidu Union on a gross basis. Payments made to Baidu Union partners are recorded as traffic acquisition costs, which are included in "Cost of revenues" in the consolidated statements of comprehensive income (loss).

Online marketing services customers are required to pay a deposit before using the Company's services. Once their account balance falls below a designated amount, they will receive an automated notice from the Company to replenish their accounts. Customer deposit is deducted and revenue is recognized when a user clicks on the customer's link in the search result, when other performance criteria other than CPC have been satisfied, or when online display advertising services have been provided. The Company offers payment terms to certain customers based on their credit history with the Company and other credit factors. The Company may also offer payment terms to certain agencies, as is common in the industry.

Collection

Certain customers of online marketing services are required to pay a deposit before using the Company's services and are sent automated reminders to replenish their accounts when the balance falls below a designated amount. The deposits received are recorded as "Customer deposits and deferred revenue" on the consolidated balance sheets. The amounts due to the Company are deducted from the deposited amounts when users click on the paid sponsored links in the search results or other performance criteria have been satisfied. In addition, the Company offers payment terms to some customers based on their historical marketing placements and credibility. The Company also offers longer payment terms to certain online payment agencies, consistent with industry practice.

Payment terms and conditions vary by customer and are based on the billing schedule established in the Company's contracts or purchase orders with customers, but the Company generally provides credit terms to customers within one year; therefore, the Company has determined that its contracts do not include a significant financing component.

Sales incentives

The Company provides sales incentives to third-party agents that entitle them to receive price reductions on the online marketing services by meeting certain cumulative consumption requirements. The Company accounts for these incentives granted to customers as variable consideration and net them against revenue. The amount of variable consideration is measured based on the most likely amount of incentives to be provided to customers.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(u) Revenue Recognition—continued

Membership services

The Company offers membership services to subscribing members with various privileges, which primarily include access to exclusive and ad-free streaming of premium content 1080P/4K high-definition video, Dolby Audio, and accelerated downloads and others, or personal cloud services, in exchange for non-refundable upfront membership fees. When the receipt of membership fees is for services to be delivered over a period of time, the receipt is initially recorded as "Customer deposits and deferred revenue" and revenue is recognized ratably over the membership period as services are rendered. Membership services revenue also includes fees earned from subscribing members for on-demand content purchases and early access to premium content. The Company is the principal in its relationships where partners, including consumer electronics manufacturers (TVs and cell phones), mobile operators, internet service providers and online payment agencies, provide access to the membership services or payment processing services as the Company retains control over its service delivery to its subscribing members. Typically, payments made to the partners, are recorded as "Cost of revenues". For the sale of the right to other membership services through strategic cooperation with other parties, the Company recognizes revenue on a net basis when the Company does not control the specified services before they are transferred to the customer.

Content distribution

The Company generates revenues from sub-licensing content licensed from vendors for cash or through nonmonetary exchanges mainly with other online video broadcasting companies. The exclusive licensing agreements the Company enters into with the vendors have a specified license period and provides the Company rights to sub-license these contents to other parties. The Company enters into a non-exclusive sub-license agreement with a sub-licensee for a period that falls within the original exclusive license period. For cash sub-licensing transactions, the Company is entitled to receive the sub-license fee under the sub-licensing arrangements and does not have any future obligation once it has provided the underlying content to the sub-licensee (which is provided at or before the beginning of the sub-license period). The sub-licensing of content represents a license of functional intellectual property which grants a right to use the Company's licensed copyrights, and is recognized at the point in time when the licensed copyright is made available for the customer's use and benefit.

The Company also enters into nonmonetary transactions to exchange online broadcasting rights of licensed copyrights with other online video broadcasting companies from time to time. The exchanged licensed copyrights provide rights for each party to broadcast the licensed copyrights received on its own website only. Each transferring party retains the right to continue broadcasting the exclusive content on its own website and/or sublicense the rights to the content it surrendered in the exchange. The Company accounts for these nonmonetary exchanges based on the fair value of the asset received. Barter sublicensing revenues are recognized in accordance with the same revenue recognition criteria above. The Company estimates the fair value of the licensed copyrights received using a market approach based on various factors, including the purchase price of similar non-exclusive and/or exclusive contents, broadcasting schedule, cast and crew, theme, popularity, and box office. The transaction price of nonmonetary exchange revenues is calculated on the individual content asset basis. For a significant nonmonetary exchange, the Company further reviews the fair value by analyzing

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(u) Revenue Recognition—continued

Content distribution—continued

against the cost of the licensed copyrights bartered out and/or engages a third-party valuation firm to assess the reasonableness of its fair value. The attributable cost of sublicensing transactions, whether for cash or through nonmonetary exchanges, is recognized as cost of revenues through the amortization of the sublicensing right component of the exclusive licensed copyright.

The Company recognized barter sublicensing revenues of RMB1.1 billion, RMB683 million and RMB1.4 billion and related costs of RMB1.0 billion, RMB570 million and RMB1.1 billion for the years ended December 31, 2018, 2019 and 2020, respectively.

Cloud Services

The Company provides public cloud services, which include computing database, storage and other services to enterprise and personal customers and allow customers to use hosted software over the contract period without taking possession of the software, generally on either a subscription or consumption basis. The Company also provides proprietary cloud services and solutions which mainly include hardware, software licensing and software installation service. Revenue related to cloud services provided on a subscription basis is recognized ratably over the contract period. Revenue related to cloud services provided on a consumption basis, such as the amount of storage used in a period, is recognized based on the customer utilization of such resources.

Cloud service revenue is recognized over time if one of the following three criteria is met: (i) the customer simultaneously receives and consumes the benefits as the Company performs; (ii) the Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; (iii) the asset delivered has no alternative use and the Company has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time upon customer acceptance of the cloud services.

Sales of hardware

The Company sells hardware products via third party agents or directly to end customers. Revenue from the sales of hardware is recognized when control of the goods is transferred to customers, which generally occurs when the products are delivered and accepted by the customers. Revenue is recorded net of sales incentives and return allowance.

Financial services

The Company offered financial services which included provision of installment payment services to consumers and wealth management services to third-party investors. Interest income earned from provision of financial services was reported as "Other revenues" and reported on a net basis after deduction of related interest costs incurred. The Company recognized gross interest income of RMB3.3 billion and interest costs of RMB1.6 billion for the year ended December 31, 2018. The financial services business was disposed of in August 2018 (Note 4).

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(u) Revenue Recognition—continued

Other revenue recognition related policies

For arrangements that include multiple performance obligations, primarily for advertisements to be displayed in different spots, placed under different forms and displayed at different times and proprietary cloud services, which mainly include hardware, software licensing and software installation service, the Company would evaluate all of the performance obligations in the arrangement to determine whether each performance obligation is distinct. Consideration is allocated to each performance obligation based on its standalone selling price at contract inception. The Company generally determines standalone selling prices based on the prices charged to customers on a standalone basis or estimates it using an expected cost plus margin approach. If a promised good or service does not meet the criteria to be considered distinct, it is combined with other promised goods or services until a distinct bundle of goods or services exists.

Timing of revenue recognition may differ from the timing of invoicing to customers. For certain services, customers are required to pay before the services are delivered to the customer. When either party to a revenue contract has performed, the Company recognizes a contract asset or a contract liability on the consolidated balance sheets, depending on the relationship between the entity's performance and the customer's payment.

Contract liabilities were mainly related to fees for membership services to be provided over the membership period, which were presented as "Customer deposits and deferred revenue" on the consolidated balance sheets. Balances of contract liabilities were RMB6.1 billion and RMB6.7 billion as of December 31, 2019 and December 31, 2020, respectively. Revenue recognized for the year ended December 31, 2020 that was included in contract liabilities as of January 1, 2020 was RMB4.0 billion.

Contract assets mainly represent unbilled amounts mainly related to the Company's rights to consideration for advertising services and cloud services delivered and are included in "Other current assets, net" on the consolidated balance sheets. As of December 31, 2018, 2019 and 2020, contract assets were RMB1.4 billion, RMB1.9 billion and RMB1.8 billion, net of an allowance for credit losses of RMB21 million, RMB7 million and RMB27 million, respectively.

The Company does not disclose the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed.

The Company's disaggregated revenues disclosures are presented in Note 24.

(v) Cost of Revenues

Cost of revenues consists primarily of traffic acquisition costs, bandwidth costs, depreciation, content costs, payroll, cost of hardware sold and related costs of operations.

Traffic acquisition costs represent the amounts paid or payable to Baidu Union partners who direct search queries to the Company's websites or distribute the Company's customers' paid links through their properties. These payments are primarily based on revenue sharing arrangements under which the Company pays its Baidu Union partners and other business partners a percentage of the fees it earns from its online marketing customers.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(w) Advertising and Promotional Expenses

Advertising and promotional expenses, including advertisements through various forms of media and kinds of marketing and promotional activities, are included in "Selling, general and administrative expense" in the consolidated statements of comprehensive income (loss) and are expensed when incurred. Advertising and promotional expenses for the years ended December 31, 2018, 2019 and 2020 were RMB10.1 billion, RMB10.5 billion and RMB8.4 billion, respectively.

(x) Research and development expenses

Research and development expenses consist primarily of personnel-related costs. The Company expenses research and development costs as they are incurred, except for (i) costs to develop internal-use software or add significant upgrades and enhancements resulting in additional functionality to internal-use software that meet the capitalization criteria in accordance with ASC Subtopic 350-40, *Intangibles-Goodwill and Other, Internal-Use Software*; and (ii) costs incurred to develop software to be sold/licensed or embedded in its products sold to customers, which are capitalized once technology feasibility is established, which is when a completed detail program design of the product is available in accordance with ASC 950-20, *Costs of Software to be Sold, Leased or Marketed*. Capitalized software development costs have not been material for the periods presented.

(y) Government Subsidies

Government subsidies primarily consist of financial subsidies received from provincial and local governments for operating a business in their jurisdictions and compliance with specific policies promoted by the local governments. For certain government subsidies, there are no defined rules and regulations to govern the criteria necessary for companies to receive such benefits, and the amount of financial subsidy is determined at the discretion of the relevant government authorities. The government subsidies of non-operating nature with no further conditions to be met are recorded as non-operating income in "Others, net" in the consolidated statements of comprehensive income (loss) when received. The government subsidies with certain operating conditions are recorded as "Deferred income" when received and is recognized as income in "Others, net" or as a reduction of specific operating costs and expenses when the conditions are met for which the grants are intended to compensate.

(z) Income Taxes

The Company recognizes income taxes under the liability method. Deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted tax rates in effect for the years in which the differences are expected to reverse. The Company records a valuation allowance against the amount of deferred tax assets that it determines is not more-likely-than-not to be realized. The effect on deferred taxes of a change in tax rates is recognized in earnings in the period that includes the enactment date.

Deferred income taxes are recognized on the undistributed earnings of subsidiaries, which are presumed to be transferred to the parent company and are subject to withholding taxes, unless there is sufficient evidence to show that the subsidiary has invested or will invest the undistributed earnings indefinitely or that the earnings will be remitted in a tax-free liquidation.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(z) Income Taxes—continued

The Company applies the provisions of ASC Topic 740, *Income Taxes* ("ASC 740"), in accounting for uncertainty in income taxes. ASC 740 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to meet before being recognized in the financial statements. The Company has elected to classify interest and penalties related to an uncertain tax position (if and when required) as part of income tax expense in the consolidated statements of comprehensive income (loss).

(aa) Share-based Compensation

The Company accounts for share-based compensation in accordance with ASC Topic 718, *Compensation-Stock Compensation* ("ASC 718"). The Company has elected to recognize share-based compensation using the straight-line method for all share-based awards issued with no performance conditions. For awards with performance conditions, compensation cost is recognized on an accelerated basis if it is probable that the performance condition will be achieved.

Forfeitures are estimated based on historical experience and are periodically reviewed. Cancellation of an award accompanied by the concurrent grant of a replacement award is accounted for as a modification of the terms of the cancelled award ("modified awards"). The compensation costs associated with the modified awards are recognized if either the original vesting condition or the new vesting condition is achieved. Total recognized compensation cost for the awards is at least equal to the fair value of the awards at the grant date unless at the date of the modification the performance or service conditions of the original awards are not expected to be satisfied. The incremental compensation cost is measured as the excess of the fair value of the replacement award over the fair value of the cancelled award at the cancellation date. Therefore, in relation to the modified awards, the Company recognizes share-based compensation over the vesting periods of the replacement award, which comprises, (i) the amortization of the incremental portion of share-based compensation over the remaining vesting term and (ii) any unrecognized compensation cost of the original award, using either the original term or the new term, whichever results in higher expenses for each reporting period.

The Company adopted ASU No. 2018-07, *Compensation—Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting to simplify the accounting for share-based payments to nonemployees* ("ASU 2018-07") on January 1, 2019 using the modified retrospective method. Subsequent to the adoption, the Company measures equity-classified nonemployee awards using their fair value on grant date. The impact of adopting ASU 2018-07 was insignificant.

(bb) Earnings Per Share ("EPS")

The Company computes earnings per Class A and Class B ordinary shares in accordance with ASC Topic 260, *Earnings Per Share* ("ASC 260"), using the two-class method. Under the provisions of ASC 260, basic earnings per share is computed using the weighted average number of ordinary shares outstanding during the period except that it does not include unvested ordinary shares subject to repurchase or cancellation. The Company's outstanding Class A and Class B ordinary shares were retroactively adjusted for the Share Subdivision as disclosed in Note 2.(a) and Note 21. The Company adjusts for the accretion of the redeemable noncontrolling interests in the calculation of income available to ordinary shareholders of the Company used in the earnings per share calculation.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(bb) Earnings Per Share ("EPS")—continued

Diluted earnings per share is computed using the weighted average number of ordinary shares and, if dilutive, potential ordinary shares outstanding during the period. Potentially dilutive securities such as stock options, restricted shares and convertible senior notes have been excluded from the computation of diluted net income per share if their inclusion is anti-dilutive. Potential ordinary shares consist of the incremental ordinary shares issuable upon the exercise of stock options, restricted shares subject to forfeiture, and contracts that may be settled in the Company's stock or cash. The dilutive effect of outstanding stock options and restricted shares is reflected in diluted earnings per share by application of the treasury stock method. The computation of the diluted earnings per Class A ordinary share assumes the conversion of Class B ordinary shares to Class A ordinary shares, while diluted earnings per Class B ordinary share does not assume the conversion of such shares. The Company adjusts for the securities issued by subsidiaries and equity method investees in the calculation of income available to ordinary shareholders of the Company used in the diluted earnings per share calculation.

The liquidation and dividend rights of the holders of the Company's Class A and Class B ordinary shares are identical, except with respect to voting rights. As a result, and in accordance with ASC 260, the undistributed earnings for each year are allocated based on the contractual participation rights of the Class A and Class B ordinary shares as if the earnings for the year had been distributed. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. Further, as the conversion of Class B ordinary shares is assumed in the computation of the diluted earnings per Class A ordinary share, the undistributed earnings are equal to net income for that computation.

For the purposes of calculating the Company's basic and diluted earnings per Class A and Class B ordinary shares, the ordinary shares relating to the options that were exercised are assumed to have been outstanding from the date of exercise of such options.

(cc) Contingencies

The Company records accruals for certain of its outstanding legal proceedings or claims when it is probable that a liability will be incurred and the amount of loss can be reasonably estimated. The Company evaluates, on a quarterly basis, developments in legal proceedings or claims that could affect the amount of any accrual, as well as any developments that would make a loss contingency both probable and reasonably estimable. The Company discloses the amount of the accrual if it is material.

When a loss contingency is not both probable and estimable, the Company does not record an accrued liability but discloses the nature and the amount of the claim, if material. However, if the loss (or an additional loss in excess of the accrual) is at least reasonably possible, then the Company discloses an estimate of the loss or range of loss, unless it is immaterial or an estimate cannot be made. The assessment of whether a loss is probable or reasonably possible, and whether the loss or a range of loss is estimable, often involves complex judgments about future events. Management is often unable to estimate the loss or a range of loss, particularly where (i) the damages sought are indeterminate, (ii) the proceedings are in the early stages, or (iii) there is a lack of clear or consistent interpretation of laws specific to the industry-specific complaints among different jurisdictions. In such cases, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, including eventual loss, fine, penalty or business impact, if any.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(dd) Concentration of Risks

Concentration of credit risk

Financial instruments that potentially subject the Company to significant concentration of credit risk primarily consist of cash and cash equivalents, restricted cash, debt investments, accounts receivable, contract assets, receivables from online payment agencies and amounts due from related parties. As of December 31, 2020, the Company has RMB172.7 billion in cash and cash equivalents, restricted cash, and debt investments, 90% and 10% of which are held by financial institutions in the PRC and international financial institutions outside of the PRC, respectively. The Company's total cash and cash equivalents, restricted cash, and debt investments held at four financial institutions in the PRC exceeded 10%, representing 30%, 21%, 16% and 11% of the Company's total cash and cash equivalents, restricted cash, and debt investments as of December 31, 2020, respectively.

PRC state-owned banks, such as Bank of China, are subject to a series of risk control regulatory standards, and PRC bank regulatory authorities are empowered to take over the operation and management when any of those banks faces a material credit crisis. The Company does not foresee substantial credit risk with respect to cash and cash equivalents, restricted cash and short-term investments held at the PRC state-owned banks. Meanwhile, China does not have an official deposit insurance program, nor does it have an agency similar to what was the Federal Deposit Insurance Corporation (FDIC) in the U.S. In the event of bankruptcy of one of the financial institutions in which the Company has deposits or investments, it may be unlikely to claim its deposits or investments back in full. The Company selected reputable international financial institutions with high rating rates to place its foreign currencies. The Company regularly monitors the rating of the international financial institutions to avoid any potential defaults. There has been no recent history of default in relation to these financial institutions.

Accounts receivable, contract assets, receivables from online payment agencies and amounts due from related parties are typically unsecured and derived from revenue earned from customers and agents in China, which are exposed to credit risk. The risk is mitigated by credit evaluations the Company performs on its customers and its ongoing monitoring process of outstanding balances. The Company maintains reserves for estimated credit losses and these losses have generally been within its expectations. As of December 31, 2018, 2019 and 2020, the Company had no single customer with a receivable balance exceeding 10% of the total accounts receivable balance.

No customer or any Baidu Union partner generated greater than 10% of total revenues in any of the three years presented.

Amounts due from related parties are typically unsecured. In evaluating the collectability of the amounts due from related parties, the Company considers many factors, including the related parties' repayment history and their credit-worthiness. The Company maintains reserves for estimated credit losses and these losses have generally been within its expectations.

Business and economic risks

The Company participates in the dynamic and competitive high technology industry and believes that changes in any of the following areas could have a material adverse effect on the Company's future financial position, results of operations and cash flows: changes in the overall demand for services and

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(dd) Concentration of Risks—continued

Business and economic risks—continued

products; changes in business offerings; competitive pressures due to existing and new entrants; advances and new trends in new technologies and industry standards; changes in bandwidth suppliers; changes in certain strategic relationships or customer relationships; regulatory considerations; copyright regulations; brand maintenance and enhancement; risks associated with the Company's ability to attract and retain employees necessary to support its growth and risks related to outbreaks of epidemics, such as COVID-19.

The Company's operations could be adversely affected by significant political, economic and social uncertainties, epidemic and trade war disruptions in the PRC.

Currency convertibility risk

Substantially all of the Company's businesses are transacted in RMB, which is not freely convertible into foreign currencies. All foreign exchange transactions take place either through Bank of China or other banks authorized to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Foreign exchange transactions, including foreign currency payments, require the approval of the People's Bank of China and/or regulatory institutions.

Foreign currency exchange rate risk

The functional currency and the reporting currency of the Company are the USD and the RMB, respectively. The Company's exposure to foreign currency exchange rate risk primarily relates to cash and cash equivalents, restricted cash, short-term investments, long-term investments, accounts and notes payable and convertible senior notes denominated in the USD. On June 19, 2010, the People's Bank of China announced the end of the RMB's de facto peg to the USD, a policy which was instituted in late 2008 in the face of the global financial crisis, to further reform the RMB exchange rate regime and to enhance the RMB's exchange rate flexibility. On March 15, 2014, the People's Bank of China announced the widening of the daily trading band for RMB against USD. The depreciation of the USD against the RMB was approximately 6.27% in 2020. Most of the revenues and costs of the Company are denominated in RMB, while a portion of cash and cash equivalents, restricted cash, short-term investments, long-term investments, notes payable and convertible senior notes are denominated in the USD. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between the Renminbi and the U.S. dollar in the future. Any significant fluctuation of the valuation of RMB may materially affect the Company's cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, the ADS in USD.

(ee) Derivative Instruments

ASC Topic 815, *Derivatives and Hedging* ("ASC 815"), requires all contracts which meet the definition of a derivative to be recognized on the balance sheet as either assets or liabilities and recorded at fair value. Changes in the fair value of derivative financial instruments are either recognized periodically in earnings or in other comprehensive income (loss) depending on the use of the derivative and whether it qualifies for hedge accounting. Changes in fair values of derivatives not qualified as hedges are reported in earnings.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(ff) Recent Accounting Pronouncements

In January 2020, the FASB issued ASU No. 2020-01, *Investments—Equity Securities* (Topic 321), *Investments—Equity Method and Joint Ventures* (Topic 323), *and Derivatives and Hedging* (Topic 815)—*Clarifying the Interactions between Topic 321, Topic 323, and Topic 815 (a consensus of the FASB Emerging Issues Task Force)* ("ASU 2020-01"), which clarifies the interactions of the accounting for certain equity securities under ASC 321, investments accounted for under the equity method of accounting in ASC 323, and the accounting for certain forward contracts and purchased options accounted for under ASC 815. ASU 2020-01 could change how an entity accounts for (i) an equity security under the measurement alternative and (ii) a forward contract or purchased option to purchase securities that, upon settlement of the forward contract or exercise of the purchased option, would be accounted for under the equity method of accounting or the fair value option in accordance with ASC 825. These amendments improve current U.S. GAAP by reducing diversity in practice and increasing comparability of the accounting for these interactions. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 31, 2020. Early adoption is permitted. The Company is currently in the process of evaluating the of adopting ASU 2020-01 on its consolidated financial statements and related disclosure.

In August 2020, the FASB issued ASU No. 2020-06, *Accounting for Convertible Instruments and Contracts in an Entity's Own Equity* ("ASU 2020-06"), which focuses on amending the legacy guidance on convertible instruments and the derivatives scope exception for contracts in an entity's own equity. ASU 2020-06 simplifies an issuer's accounting for convertible instruments by reducing the number of accounting models that require separate accounting for embedded conversion features. ASU 2020-06 also simplifies the settlement assessment that entities are required to perform to determine whether a contract qualifies for equity classification. Further, ASU 2020-06 enhances information transparency by making targeted improvements to the disclosures for convertible instruments and earnings-per-share (EPS) guidance, i.e., aligning the diluted EPS calculation for convertible instruments by requiring that an entity use the if-converted method and that the effect of potential share settlement be included in the diluted EPS calculation when an instrument may be settled in cash or shares, adding information about events or conditions that occur during the reporting period that cause conversion contingencies to be met or conversion terms to be significantly changed. This update will be effective for the Company's fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. Early adoption is permitted, but no earlier than fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Entities can elect to adopt the new guidance through either a modified retrospective method of transition or a fully retrospective method of transition. The Company is currently in the process of evaluating the impact of adopting ASU 2020-06 on its consolidated financial statements and related disclosure.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

3. BUSINESS COMBINATIONS

Business combinations in 2018:

During the year ended December 31, 2018, the Company completed several business combinations, to complement its existing businesses and achieve synergies. The acquired entities individually and in aggregate were insignificant. Results of the acquired entities' operations have been included in the Company's consolidated financial statements since the acquisition dates.

	RMB (In millions)
Purchase consideration	2,378
Net assets acquired, excluding intangible assets and the related deferred tax liabilities	1,545
Intangible assets, net	1,424
Deferred tax liabilities	(292)
Pre-existing equity interests	(1,651)
Noncontrolling interests	(1,312)
Redeemable noncontrolling interests (Note 19)	(698)
Goodwill	3,362
	2,378

The aggregate purchase price allocation includes acquisition of certain acquirees, which were equity method investees of the Company prior to the acquisitions. In aggregate, a re-measurement gain relating to the Company's pre-existing equity interest of RMB630 million was recognized during the year ended December 31, 2018. The Company applied the equity method of accounting by recognizing its share of the profit or loss in these equity method investees up to their respective dates of acquisition.

Goodwill, which is non-deductible for tax purposes, is primarily attributable to the synergies expected to be achieved from the acquisitions.

Neither the results of operations since the acquisition dates nor the pro forma results of operations of the acquirees were presented because the effects of these business combinations, individually and in the aggregate, were not significant to the Company's consolidated results of operations.

Business combinations in 2019:

During the year ended December 31, 2019, the Company completed several business combinations, total purchase consideration in aggregate was RMB1.2 billion, among which RMB978 million was allocated to goodwill. The Company expects to achieve significant synergies from such acquisitions which it plans to complement its existing businesses. The acquired entities were considered insignificant, both individually and in aggregate. Results of the acquired entities' operations have been included in the Company's consolidated financial statements since the acquisition dates.

	RMB (In millions)
Purchase consideration	1,168
Net assets acquired, excluding intangible assets and the related deferred tax liabilities	229
Intangible assets, net	543
Deferred tax liabilities	(134)
Noncontrolling interests	(266)
Redeemable noncontrolling interests (Note 19)	(182)
Goodwill	978
	1,168

Goodwill, which is non-deductible for tax purposes, is primarily attributable to the synergies expected to be achieved from the acquisitions.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

3. BUSINESS COMBINATIONS—continued

Business combinations in 2019—continued:

Neither the results of operations since the acquisition dates nor the pro forma results of operations of the acquirees were presented because the effects of these business combinations, individually and in the aggregate, were not significant to the Company's consolidated results of operations.

Business combinations in 2020:

During the year ended December 31, 2020, the Company completed several business combinations, total purchase consideration in aggregate was RMB3.5 billion, among which RMB4.0 billion was allocated to goodwill. The Company expects to achieve significant synergies from such acquisitions which it plans to complement its existing businesses. The acquired entities were considered insignificant, both individually and in aggregate. Results of the acquired entities' operations have been included in the Company's consolidated financial statements since the acquisition dates.

	RMB (In millions)
Purchase consideration	3,499
Net assets acquired, excluding intangible assets and the related deferred tax liabilities	1,515
Intangible assets, net	1,116
Deferred tax liabilities	(229)
Pre-existing equity interests and debt investment	(2,103)
Noncontrolling interests	(798)
Goodwill	3,998
	3,499

The Company's pre-existing equity interests in the acquired entities were remeasured to fair value at the acquisition dates. For the year ended December 31, 2020, the Company recognized a net re-measurement gain of RMB123 million in "Others, net" in the consolidated statement of comprehensive income.

Goodwill, which is non-deductible for tax purposes, is primarily attributable to the synergies expected to be achieved from the acquisitions.

Neither the results of operations since the acquisition dates nor the pro forma results of operations of the acquirees were presented because the effects of these business combinations, both individually and in aggregate, were not significant to the Company's consolidated results of operations.

The valuations used in the purchase price allocation described above were determined by the Company with the assistance of independent third-party valuation firm. The valuation reports considered generally accepted valuation methodologies such as the income, market and cost approaches. As the acquirees are all private companies, the fair value estimates of pre-existing equity interests and debt investment or noncontrolling interests are based on significant inputs considered by market participants which mainly include (a) discount rate, (b) projected terminal value based on future cash flows, (c) equity multiples or enterprise value multiples of companies in the same industries and (d) adjustment for lack of control or lack of marketability.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS

Short-term Investments

As of December 31, 2018, 2019 and 2020, the Company's short-term investments comprised of only debt securities. Short-term held-to-maturity securities were mainly deposits in commercial banks with maturities less than one year and wealth management products issued by commercial banks and other financial institutions for which the Company has the positive intent and ability to hold those securities to maturity. The short-term available-for-sale securities include wealth management products issued by commercial banks and other financial institutions which are not classified as trading securities or as held-to-maturity securities.

During the years ended December 31, 2018, 2019 and 2020, the Company recorded interest income from its short-term investments of RMB3.9 billion, RMB5.4 billion and RMB4.7 billion in the consolidated statements of comprehensive income (loss), respectively.

Short-term investments classification as of December 31, 2018, 2019 and 2020 were shown as below:

	As of December 31, 2018					
	Cost or Amortized cost	Gross unrecognized holding gains	Gross unrecognized holding losses	Gross unrealized gains	Gross unrealized losses	Fair value
	RMB	RMB	RMB (In millions)	RMB	RMB	RMB
Held-to-maturity debt investments	27,388	119	—	—	—	27,507
Available-for-sale debt investments	83,100	—	—	1,216	(78)	84,238

	As of December 31, 2019					
	Cost or Amortized cost	Gross unrecognized holding gains	Gross unrecognized holding losses	Gross unrealized gains	Gross unrealized losses	Fair value
	RMB	RMB	RMB (In millions)	RMB	RMB	RMB
Held-to-maturity debt investments	107,287	367	—	—	—	107,654
Available-for-sale debt investments	5,440	—	—	197	—	5,637

	As of December 31, 2020					
	Cost or Amortized cost	Gross unrecognized holding gains	Gross unrecognized holding losses	Gross unrealized gains	Gross unrealized losses	Fair value
	RMB	RMB	RMB (In millions)	RMB	RMB	RMB
Held-to-maturity debt investments	123,537	595	—	—	—	124,132
Available-for-sale debt investments	2,862	—	—	3	—	2,865

Long-term Investments

The following table sets forth a breakdown of the categories of long-term investments held by the Company as of the dates indicated:

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Equity investments at fair value with readily determinable fair value	4,428	11,334	12,978
Available-for-sale debt investment	1,167	3,970	2,607
Equity investments without readily determinable fair value	29,269	24,686	24,603
Equity method investments	44,133	27,105	24,067
Investments accounted for at fair value	1,457	1,819	2,238
Long-term held-to-maturity investments	—	496	9,740
Total	80,454	69,410	76,233

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS—continued

Long-term Investments—continued

Equity investments at fair value with readily determinable fair value

Equity investments at fair value with readily determinable fair value represent investments in the equity securities of publicly listed companies, for which the Company does not have significant influence.

In 2017, the Company acquired equity interests in China United Network Communication Limited ("China Unicom"), a listed telecommunications company in China for cash consideration of RMB7.0 billion. The China Unicom investment was held by a non-wholly-owned subsidiary of the Company. As the China Unicom investment was subject to a three-year holding requirement, it was accounted for using the measurement alternative in 2018 and as an equity investment with readily determinable fair value in 2019 as the holding restrictions terminate within one year. In 2020, the Company partially disposed its investment in China Unicom for RMB 2.7 billion, which was subsequently distributed to noncontrolling shareholder in January 2021.

Equity investments without readily determinable fair value

In accordance with ASC 321, the Company elected to use the measurement alternative to measure such investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any. Impairment charges recognized on equity investments without readily determinable fair value was RMB455 million, RMB778 million and RMB2.3 billion for the years ended December 31, 2018, 2019 and 2020, respectively.

The total carrying value of equity investments without readily determinable fair value held as of December 31, 2018, 2019 and 2020 were as follows:

	As of December 31, 2018	As of December 31, 2019	As of December 31, 2020
	RMB	RMB (In millions)	RMB
Initial cost basis	26,728	21,211	19,725
Cumulative unrealized gains	6,271	5,636	8,113
Cumulative unrealized losses (including impairment)	(3,730)	(2,161)	(3,235)
Total carrying value	29,269	24,686	24,603

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS—continued

Long-term Investments—continued

Equity investments without readily determinable fair value—continued

Total unrealized and realized gains and losses of equity securities without readily determinable fair values in 2018, 2019 and 2020 were as follows:

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Gross unrealized gains	7,119	1,447	4,396
Gross unrealized losses (including impairment) (i)	(2,867)	(1,641)	(2,679)
Net unrealized gains (losses) on equity securities held	4,252	(194)	1,717
Net realized gains on equity securities sold	124	211	266
Total net gains recognized in other income, net	4,376	17	1,983

Note:

(i) Gross unrealized losses (downward adjustments excluding impairment) were RMB2.4 billion, RMB863 million and RMB378 million for the years ended December 31, 2018, 2019 and 2020, respectively.

Equity method investments

The carrying amounts of the Company's equity method investments were RMB44.1 billion, RMB27.1 billion and RMB24.1 billion as of December 31, 2018, 2019 and 2020, respectively. For the years ended December 31, 2018, 2019 and 2020, the impairment recognized for equity method investments were RMB167 million, RMB9.2 billion and RMB297 million, respectively.

Equity Investment in Trip.com International, Ltd. ("Trip") (formally known as Ctrip)

As of December 31, 2018, the Company held approximately 19% of Trip's outstanding shares. The Company is considered to have significant influence over Trip and accounts for such investment as an equity method investment in accordance with ASC 323.

During 2019, the market value of Trip had significantly declined and remained below the carrying value of the investment for a prolonged period of time. Therefore, the Company concluded that the decline in market value of the investment in Trip was other-than-temporary as of September 30, 2019 and an impairment charge of RMB8.9 billion was recorded in the third quarter of 2019. The Company made a corresponding RMB 8.9 billion downward adjustment to the equity method goodwill arising from its acquisition of the Trip investment.

In October 2019, the Company disposed an aggregate of 36 million American Depositary Shares of Trip for cash consideration of US$988 million and recognized a disposal loss of RMB43 million in the year ended December 31, 2019.

The carrying amount of the Company held the interests in Trip was RMB30.5 billion, RMB14.1 billion and RMB12.6 billion as of December 31, 2018, 2019 and 2020, respectively.

After the partial disposal of the investment in Trip the Company held approximately 12% equity interest in Trip, and the Company can actively participate in the operating and financing policies of

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS—continued

Long-term Investments—continued

Equity method investments—continued

Equity Investment in Trip.com International, Ltd. ("Trip") (formally known as Ctrip)—continued

Trip through its two seats on Trip's board of directors with a total of nine members. Accordingly, the Company continues to have significant influence over Trip and accounts for its remaining investment as an equity method investment in accordance with ASC 323. As of December 31, 2020, the Company's investments in Trip had a fair value of RMB15.2 billion, based on the closing share price.

The following tables set forth the summarized financial information of Trip:

	As of September 30, (i)		
	2018	2019(ii)	2020
	RMB	RMB (In millions)	RMB
Current assets	84,464	75,578	65,782
Non-current assets	104,906	127,505	132,417
Current liabilities	69,065	74,118	61,360
Non-current liabilities	30,318	25,134	36,558
Noncontrolling interests	2,231	2,047	1,566

	For the twelve months ended September 30, (i)		
	2018(ii)	2019(ii)	2020
	RMB	RMB (In millions)	RMB
Total revenues	29,944	34,958	21,704
Gross profit	24,019	27,627	16,838
Income (loss) from operations	3,302	4,271	(827)
Net income (loss)	2,807	3,764	(2,236)
Net income (loss) attributable to the investees	2,806	3,813	(2,243)

Notes:

(i) The Company adopted a one-quarter lag in reporting its share of equity income (loss) in Trip.

(ii) Trip adopted ASC 606, on a fully retrospective basis, and ASC 321 (collectively "new standards") from January 1, 2018. The impact of the new standards on the Company's financial statements was immaterial, and prior period financial information of Trip was not restated.

Disposal of financial services business

In April 2018, the Company entered into definitive agreements relating to the disposal of its wholly-owned financial services business, which provided consumer credit, wealth management and other financial services. To facilitate the divesture, the Company conducted a series of legal restructuring and recapitalization of entities conducting the financial services business ("Du Xiaoman"), which were accounted for as transactions under common control.

In August 2018, Du Xiaoman issued preferred shares to third-party investors, which resulted in the Company becoming a minority shareholder of Du Xiaoman. Accordingly, Du Xiaoman was deconsolidated from the Group and a disposal gain of RMB5.5 billion was recognized in "Others, net" including RMB4.2 billion relates to the re-measurement of the Company's retained equity interest in Du Xiaoman. The disposal of Du Xiaoman did not meet the definition of a discontinued operation per ASC Subtopic 205-20, *Presentation of Financial Statements—Discontinued Operations*, as the divesture did not represent a shift in strategy nor had a major impact to the Group's operation and financial results.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS—continued

Long-term Investments—continued

Equity method investments—continued

Disposal of financial services business—continued

The Company retained an equity interest of 41% on a fully diluted basis, and accounted for Du Xiaoman as an equity method investment in accordance with ASC 323, as it retained significant influence over Du Xiaoman. The carrying amount of the Du Xiaoman investment in excess of the Company's proportionate interest in Du Xiaoman was recognized as equity method goodwill of RMB3.5 billion, intangible assets of RMB851 million and related deferred tax liabilities of RMB213 million.

Deconsolidation of one of the Company's subsidiaries

In December 2019, the Company lost control and therefore deconsolidated one of its subsidiaries. A non-cash disposal loss of RMB801 million was recognized in "Others, net" in the consolidated statement of comprehensive loss for the year ended December 31, 2019. The Company continued to have significant influence over the entity and accounted for its remaining equity interest in the entity as an equity-method investment in accordance with ASC 323.

As of December 31, 2018, 2019 and 2020, in addition to the aforementioned equity method investments, the Company held other equity method investments through its subsidiaries or VIEs and over which had significant influence.

For the year ended December 31, 2020, equity method investments excluding Trip held by the Company in aggregate have met the significance criteria as defined under Rule 4-08(g) of Regulation S-X. Financial information for the Company's equity method investments other than Trip are summarized as a group as follow:

	As of September 30,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Current assets	100,313	86,713	96,713
Non-current assets	11,050	18,980	15,094
Current liabilities	78,935	65,450	73,842
Non-current liabilities	2,718	8,677	5,545
Noncontrolling interests	1,706	1,498	1,577

	For the twelve months ended September 30, [i]		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Total revenues	4,633	12,598	13,981
Gross profit	916	6,247	5,083
Loss from operations	(418)	(680)	(1,282)
Net loss	(372)	(638)	(832)
Net loss attributable to the investees	(352)	(933)	(891)

Note:

(i) The Company adopted a one-quarter lag in reporting its share of losses in all of its equity investees.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS—continued

Long-term Investments—continued

Investments accounted for at fair value

Long-term equity investments in unlisted companies held by consolidated investment companies are accounted for at fair value in accordance with ASC 946-320. These investments are carried at fair value with realized or unrealized gains and losses recorded in "Others, net" in the consolidated statements of comprehensive income (loss).

The methodology used in the determination of fair values for held-to-maturity debt investments, available-for-sale debt investments, equity investments with readily determinable fair values and other investment securities accounted for at fair value are disclosed in Note 25.

Long-term investments classification, excluding equity method investments and equity investments without readily determinable fair value, as of December 31, 2018, 2019 and 2020 are shown as below:

	As of December 31, 2018					
	Cost or Amortized cost	Gross unrecognized holding gains	Gross unrecognized holding losses	Gross unrealized gains	Gross unrealized losses	Fair value
	RMB	RMB	RMB (In millions)	RMB	RMB	RMB
Equity investments at fair value with readily determinable fair value	5,605	—	—	664	(1,841)	4,428
Available-for-sale debt investment	1,167	—	—	—	—	1,167
Investments accounted for at fair value	1,139	—	—	318	—	1,457

	As of December 31, 2019					
	Cost or Amortized cost	Gross unrecognized holding gains	Gross unrecognized holding losses	Gross unrealized gains	Gross unrealized losses	Fair value
	RMB	RMB	RMB (In millions)	RMB	RMB	RMB
Equity investments at fair value with readily determinable fair value	11,769	—	—	2,195	(2,630)	11,334
Available-for-sale debt investments	3,913	—	—	138	(81)	3,970
Investments accounted for at fair value	1,309	—	—	597	(87)	1,819

	As of December 31, 2020					
	Cost or Amortized cost	Gross unrecognized holding gains	Gross unrecognized holding losses	Gross unrealized gains	Gross unrealized losses	Fair value
	RMB	RMB	RMB (In millions)	RMB	RMB	RMB
Equity investments at fair value with readily determinable fair value	8,419	—	—	7,342	(2,783)	12,978
Available-for-sale debt investments	2,804	—	—	166	(363)	2,607
Investments accounted for at fair value	1,580	—	—	885	(227)	2,238

Long-term held-to-maturity investments

Long-term held-to-maturity securities were mainly deposits in commercial banks with maturities of greater than one year and wealth management products issued by commercial banks and other financial institutions for which the Company has the positive intent and ability to hold those securities to maturity.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS—continued

Long-term Investments—continued

During the years ended December 31, 2018, 2019 and 2020, the Company recorded interest income from its long-term held-to-maturity investments of nil, RMB2 million and RMB118 million in the consolidated statements of comprehensive income (loss), respectively.

Long-term held-to-maturity investments classification as of December 31, 2019 and 2020 were shown as below:

	As of December 31, 2019					
	Cost or Amortized cost	Gross unrecognized holding gains	Gross unrecognized holding losses	Gross unrealized gains	Gross unrealized losses	Fair value
	RMB	RMB	RMB (In millions)	RMB	RMB	RMB
Long-term held-to-maturity investments	496	—	(5)	—	—	491

	As of December 31, 2020					
	Cost or Amortized cost	Gross unrecognized holding gains	Gross unrecognized holding losses	Gross unrealized gains	Gross unrealized losses	Fair value
	RMB	RMB	RMB (In millions)	RMB	RMB	RMB
Long-term held-to-maturity investments	9,740	14	—	—	—	9,754

The following table summarizes the amortized cost of long-term held-to-maturity investments with stated contractual dates, classified by the contractual maturity date of the investments:

	As of December 31,	
	2019	2020
	RMB (In millions)	RMB
Due in 1 year	—	—
Due in 1 year through 2 years	496	9,690
Due in 2 years through 3 years	—	50
Total	496	9,740

Available-for-sale debt investments are convertible debt instruments issued by private companies and an investment in preferred shares that is redeemable at the Company's option, which are measured at fair value. Investments in preferred shares that are redeemable at the Company's option have no contractual maturity date.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS—continued

Long-term Investments—continued

The following table summarizes the estimated fair value of available-for-sale debt investments with stated contractual dates, classified by the contractual maturity date of the investments:

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Due in 1 year	—	505	—
Due in 1 year through 5 years	—	10	1,587
Due in 5 years through 10 years	—	1,486	—
Not due at a single maturity date	1,167	1,969	1,020
Total	1,167	3,970	2,607

5. LICENSED COPYRIGHTS, NET

	As of December 31, 2018			
	Gross carrying value	Accumulated amortization	Impairment amount	Net carrying value
	RMB	RMB (In millions)	RMB	RMB
Licensed copyrights				
—Broadcasting rights	24,569	(16,860)	(136)	7,573
—Sublicensing rights	3,466	(3,234)	—	232
	28,035	(20,094)	(136)	7,805
Less: current portion:				
—Broadcasting rights	6,589	(5,546)	(111)	932
—Sublicensing rights	3,466	(3,234)	—	232
	10,055	(8,780)	(111)	1,164
Licensed copyrights—non-current				
—Broadcasting rights	17,980	(11,314)	(25)	6,641
—Sublicensing rights	—	—	—	—
	17,980	(11,314)	(25)	6,641

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

5. LICENSED COPYRIGHTS, NET—continued

	As of December 31, 2019			
	Gross carrying value	Accumulated amortization	Impairment amount	Net carrying value
	RMB	RMB (In millions)	RMB	RMB
Licensed copyrights				
—Broadcasting rights	32,038	(24,501)	(25)	7,512
—Sublicensing rights	4,633	(4,633)	—	—
	36,671	(29,134)	(25)	7,512
Less: current portion:				
—Broadcasting rights	11,751	(10,501)	(25)	1,225
—Sublicensing rights	4,633	(4,633)	—	—
	16,384	(15,134)	(25)	1,225
Licensed copyrights—non-current				
—Broadcasting rights	20,287	(14,000)	—	6,287
—Sublicensing rights	—	—	—	—
	20,287	(14,000)	—	6,287

	As of December 31, 2020			
	Gross carrying value	Accumulated amortization	Impairment amount	Net carrying value
	RMB	RMB (In millions)	RMB	RMB
Licensed copyrights				
—Broadcasting rights	37,511	(29,688)	(353)	7,470
—Sublicensing rights	5,963	(5,963)	—	—
	43,474	(35,651)	(353)	7,470
Less: current portion:				
—Broadcasting rights	8,661	(7,592)	(34)	1,035
—Sublicensing rights	5,963	(5,963)	—	—
	14,624	(13,555)	(34)	1,035
Licensed copyrights—non-current				
—Broadcasting rights	28,850	(22,096)	(319)	6,435
—Sublicensing rights	—	—	—	—
	28,850	(22,096)	(319)	6,435

Amortization expense of RMB12.1 billion, RMB12.7 billion and RMB11.5 billion for the years ended December 31, 2018, 2019 and 2020, respectively, was recognized as cost of revenues. Estimated amortization expense relating to the existing licensed copyrights for each of the next three years is as follow:

	RMB (In millions)
Within 1 year	3,681
Between 1 and 2 years	1,351
Between 2 and 3 years	804

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

5. LICENSED COPYRIGHTS, NET—continued

To supplement cash flow disclosure of investing activities in 2018 and 2019, acquisition of licensed copyrights included in current liabilities for the years ended December 31, 2018 and 2019 amounted to RMB6.3 billion and RMB5.5 billion, respectively. Acquisition of licensed copyrights from nonmonetary content exchanges for the years ended December 31, 2018 and 2019 amounted to RMB642 million and RMB968 million, respectively.

6. PRODUCED CONTENT, NET

	As of December 31, 2018
	RMB (In millions)
Released, less amortization	553
In production	2,871
In development	312
	3,736

	As of December 31, 2019
	RMB (In millions)
Released, less amortization	892
In production	3,075
In development	388
	4,355

	As of December 31, 2020
	RMB (In millions)
Released, less amortization and impairment	
—Predominantly monetized with other content assets	1,857
—Predominantly monetized on its own	78
	1,935
In production, less impairment	
—Predominantly monetized with other content assets	3,742
—Predominantly monetized on its own	82
	3,824
In development, less impairment	
—Predominantly monetized with other content assets	666
—Predominantly monetized on its own	131
	797
Total	**6,556**

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

6. PRODUCED CONTENT, NET—continued

Amortization expense of RMB3,024 million and RMB1,095 million was recognized as "Cost of revenues" in the consolidated statement of comprehensive income for the year ended December 31, 2020, for produced content predominantly monetized with other content assets and for produced content predominantly monetized on its own, respectively. Amortization expense for produced content was RMB2,266 million and RMB2,977 million for the years ended December 31, 2018 and 2019, respectively. Estimated amortization expense relating to the existing produced content for each of the next three years is as follows:

	RMB
	(In millions)
Due in 1 year	827
Between 1 and 2 years	296
Between 2 and 3 years	197

7. ACCOUNTS RECEIVABLE

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Accounts receivable	6,614	8,344	9,988
Allowance for credit losses	(599)	(928)	(1,320)
	6,015	7,416	8,668

The movements in the allowance for credit losses were as follows:

	2018	2019	2020
	RMB	RMB (In millions)	RMB
Balance as of January 1	316	599	928
Adoption of ASU 2016-13	–	–	119
Amounts charged to expenses	299	331	455
Amounts written off	(16)	(2)	(182)
Balance as of December 31	599	928	1,320

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

8. OTHER ASSETS

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Prepaid expenses	658	955	1,109
Advances to suppliers	1,686	964	1,053
Receivables from online payment agencies	892	585	440
Deposits	247	787	437
Prepaid licensed copyrights	1,176	1,225	1,035
Contract assets, net (i)	1,415	1,876	1,755
VAT prepayments	436	1,605	1,768
Income tax prepayments	2	499	130
Others	329	693	3,279
Total other current assets	**6,841**	**9,189**	**11,006**
Long-term prepaid expenses	5,331	4,176	3,084
Others	710	276	364
Total other non-current assets	**6,041**	**4,452**	**3,448**

Note:

(i) The allowance for credit losses on contract assets was RMB21 million, RMB7 million and RMB27 million as of December 31, 2018, 2019 and 2020, respectively. The amounts charged to expenses for credit losses of contract assets and write-offs charged against the allowance were RMB9 million and nil, respectively, for the year ended December 31, 2020. The effect of adopting ASU 2016-13 was RMB11 million to the opening balance of contract assets, net.

9. FIXED ASSETS

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Computer equipment	26,186	29,592	33,150
Office building	4,168	4,628	4,697
Office building related facility, machinery and equipment	2,168	2,317	2,442
Vehicles	190	203	204
Office equipment	813	944	971
Leasehold improvements	352	391	386
Construction in progress	720	313	454
	34,597	38,388	42,304
Accumulated depreciation and impairment	(16,694)	(20,077)	(24,796)
	17,903	18,311	17,508

Depreciation expense, for the years ended December 31, 2018, 2019 and 2020, was RMB3.7 billion, RMB5.6 billion and RMB5.7 billion, respectively. Impairment charges on fixed assets for the years ended December 31, 2018, 2019 and 2020 were not material.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

10. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The Company had two reporting units, Baidu Core and iQIYI, as of December 31, 2018, 2019 and 2020.

The changes in the carrying amount of goodwill for each reporting unit from 2018 to 2020 was as follows:

	Baidu Core	iQIYI	Total
	RMB	RMB (In millions)	RMB
Balance at December 31, 2017	12,530	3,276	15,806
Goodwill acquired *(Note 3)*	2,750	612	3,362
Goodwill disposed	(569)	—	(569)
Foreign currency translation and other adjustments	(63)	—	(63)
Balance at December 31, 2018	14,648	3,888	18,536
Goodwill acquired *(Note 3)*	978	—	978
Goodwill disposed [(i)]	(1,265)	—	(1,265)
Foreign currency translation and other adjustments	1	—	1
Balance at December 31, 2019	14,362	3,888	18,250
Goodwill acquired *(Note 3)*	3,998	—	3,998
Balance at December 31, 2020	18,360	3,888	22,248

Note:

(i) Disposition during the year ended December 31, 2019 was primarily related to the deconsolidation of a subsidiary (Note 4).

Intangible Assets

	As of December 31, 2018			
	Gross carrying value	Accumulated impairment	Accumulated amortization	Net carrying value
	RMB	RMB (In millions)	RMB	RMB
Trademarks	942	(2)	(499)	441
Technology	607	—	(320)	287
Intellectual property right	1,208	(7)	(245)	956
Online literature	141	—	(19)	122
Others	2,876	(149)	(1,993)	734
	5,774	(158)	(3,076)	2,540

	As of December 31, 2019			
	Gross carrying value	Accumulated impairment	Accumulated amortization	Net carrying value
	RMB	RMB (In millions)	RMB	RMB
Trademarks	658	(2)	(182)	474
Technology	456	(52)	(188)	216
Intellectual property right	1,548	(355)	(594)	599
Online literature	163	—	(40)	123
Others	805	(19)	(598)	188
	3,630	(428)	(1,602)	1,600

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

10. GOODWILL AND INTANGIBLE ASSETS—continued

Intangible Assets—continued

	As of December 31, 2020			
	Gross carrying value	Accumulated impairment	Accumulated amortization	Net carrying value
	RMB	RMB (In millions)	RMB	RMB
Trademarks	1,054	(238)	(205)	611
Technology	1,087	(52)	(307)	728
Intellectual property right	1,599	(467)	(757)	375
Online literature	151	—	(54)	97
Others	899	(19)	(669)	211
	4,790	(776)	(1,992)	2,022

The carrying amounts of intangible assets with indefinite useful lives were insignificant as of December 31, 2018, 2019 and 2020.

The Company recognized impairment losses on intangible assets of RMB5 million, RMB406 million and RMB350 million for the years ended December 31, 2018, 2019 and 2020, respectively. Impairment losses on intangible assets are recorded in cost of revenues.

Amortization expense of intangible assets were RMB385 million, RMB661 million and RMB544 million, for the years ended December 31, 2018, 2019 and 2020, respectively.

Estimated amortization expense relating to the existing intangible assets with finite lives for each of the next five years is as follow:

	RMB (In millions)
For the years ending December 31,	
2021	505
2022	448
2023	375
2024	337
2025	235

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Accrued other operating expenses	10,680	8,925	8,301
Content acquisition costs	8,873	7,267	6,734
Tax payable	2,342	3,115	3,779
Accrued payroll and welfare	1,898	2,407	3,508
Payable to noncontrolling interest shareholders	—	240	3,466
Traffic acquisition costs	2,911	2,772	2,467
Bandwidth costs	2,085	2,492	1,985
Accruals for purchases of fixed assets	1,890	1,220	1,270
Funds collected on behalf of service providers	353	498	523
Interest payable	382	310	487
Payable to merchants	340	310	307
Users' and third party agents' deposits	661	641	268
Others	2,966	2,504	3,621
	35,381	32,701	36,716

12. LOANS PAYABLE

Short-term Loans

Short-term loans as of December 31, 2018, 2019 and 2020 amounted to RMB3.0 billion, RMB2.6 billion and RMB3.0 billion, respectively, which consisted of RMB denominated borrowings by the Company's subsidiaries from financial institutions in the PRC and were repayable within one year.

As of December 31, 2018, 2019, and 2020, the repayments of primarily all of the short-term loans are guaranteed by subsidiaries of iQIYI and either collateralized by an office building of one of iQIYI's VIEs with a carrying amount of RMB575 million, RMB562 million and RMB548 million respectively, or by restricted cash balances totaling US$316 million, US$139 million, and US$4 million (equivalent to RMB23 million), respectively, or by other receivables totaling nil, nil and US$5 million (equivalent to RMB35 million), respectively.

As of December 31, 2018, 2019 and 2020, the weighted average interest rates for the outstanding borrowings were approximately 4.47%, 4.05% and 4.30%, respectively, and the aggregate amounts of unused lines of credit for short-term loans were RMB781 million, RMB1.6 billion and RMB840 million, respectively.

Structured payable arrangements

In 2020, iQIYI entered into structured payable arrangements with banks or other financial institutions ("factoring arrangements"), which extended the original payment terms. Under the factoring arrangements, the suppliers' receivables collection process was accelerated through selling its receivables from iQIYI to the banks or other financial institutions at a discount. iQIYI was legally obligated to pay the banks or other financial institutions in the amount totaling RMB396 million, maturing within one year.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

12. LOANS PAYABLE—continued

Structured payable arrangements—continued

As a result of the factoring arrangements, the payment terms of the iQIYI's original accounts payables were substantially modified and considered extinguished as the nature of the original liability has changed from accounts payables to loan borrowings from banks or other financial institutions. The proceeds from borrowings from banks or other financial institutions is a financing activity and is reported as "Proceeds from short-term loans" on the consolidated statements of cash flows. As of December 31, 2020, the outstanding borrowings from the factoring arrangements were RMB390 million, which is repayable within one year and are included in "Short-term loans" in the consolidated balance sheet.

Long-term Loans

Baidu

In June 2016, the Company entered into a five-year term revolving facility agreement with a group of 21 syndicated bankers, pursuant to which the Company is entitled to borrow an unsecured USD denominated floating rate loan of US$1.0 billion with a term of five years and to borrow an unsecured USD denominated revolving loan of US$1.0 billion for five years. The facility was priced at 110 basis points over LIBOR and is intended for the general working capital of the Company. In June 2016, the Company drew down two tranches of US$250 million each under the facility commitment. In November 2016, the Company drew down two tranches of US$250 million each under the facility commitment. In connection with the facility agreements, the Company entered into four interest rate swap agreements, pursuant to which the loans would be settled with a fixed annual interest rate of 2.11%, 2.10%, 2.78% and 2.78% respectively, during the respective term of the loans.

The total outstanding borrowings were RMB7.0 billion and RMB6.5 billion, which was classified as "Long-term loans" as of December 31, 2019 and reclassified to "Long-term loans, current portion" as of December 31, 2020.

The interest rate swap agreements met the definition of a derivative in accordance with ASC Topic 815, *Derivatives and Hedging* ("ASC 815"). The derivatives related to the interest rate swap agreements are accounted at fair value and included in "Other non-current assets" on the consolidated balance sheets.

iQIYI

In 2017, iQIYI borrowed a secured RMB denominated loan of RMB299 million with an interest rate of 4.47% for a three-year term from the Bank of China for its general working capital purposes. Pursuant to the agreement, the principal shall be repaid by installments from 2017 to 2020. As of December 31, 2018, 2019 and 2020, the repayment of the loan is guaranteed by a subsidiary of iQIYI and collateralized by an office building of one of iQIYI's VIEs with a carrying amount of RMB575 million, RMB562 million and RMB548 million, respectively. Principal repayments were made on the loan when they became due and amounted to RMB10 million and RMB274 million for the years ended December 31, 2019 and 2020, respectively. The loan was fully repaid as of December 31, 2020.

In September 2019, iQIYI entered into a two-year loan agreement with JPMorgan Chase Bank, N.A., pursuant to which iQIYI is entitled to borrow a secured RMB denominated loan of RMB800 million for the general working capital of iQIYI. In 2019, iQIYI drew down RMB448 million with an interest

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

12. LOANS PAYABLE—continued

Long-term Loans—continued

iQIYI—continued

rate of 3.55%. Pursuant to the agreement, the principal shall be repaid in installments from 2019 to 2021. As of December 31, 2019 and December 31, 2020, the repayment of the loan was collateralized by long-term held-to-maturity debt securities with a stated cost of US$71 million and US$71 million (equivalent to RMB463 million), respectively. Principal repayments were made on the loan when they became due and amounted to RMB3 million and RMB34 million for the years ended December 31, 2019 and 2020, respectively. The amount repayable within the next twelve months are classified as "Long-term loans, current portion".

In December 2018, iQIYI entered into a series of transactions ("reverse factoring arrangement") in order to re-finance certain payables due to its suppliers. In the reverse factoring arrangement, iQIYI's suppliers sold certain 2018 receivables due from iQIYI (the "2018 factored receivables") to the financial institutions at a discount. The 2018 factored receivables were transferred to a securitization vehicle and used to securitize debt securities issued to third-party investors for gross proceeds of RMB446 million. Concurrently, iQIYI also entered into an agreement with the financial institutions to extend the repayment of the underlying payables to mirror the repayment terms for the asset-back debt securities with maturities in December 2019 and December 2020. Under such arrangement, the payable obligation between iQIYI and the suppliers was considered settled and iQIYI was legally obligated to pay the financial institutions thereafter. As the 2018 factored receivables were sold to the financial institutions and used to securitize the debt securities, the factored receivables are viewed as collateral for raising loans through the issuance of 2018 asset-backed debt securities. The borrowings have an effective interest rate of 7.00%.

In November 2019, the Company entered into a similar reverse factoring arrangement whereby iQIYI's suppliers sold certain 2019 receivables due from iQIYI (the "2019 factored receivables") amounting to RMB587 million to the financial institutions at a discount. The 2019 factored receivables were transferred to a securitization vehicle and used to securitize debt securities issued to third-party investors for gross proceeds of RMB500 million. Concurrently, iQIYI also entered into an agreement with the financial institutions to extend the repayment of the underlying payables to mirror the repayment terms for the 2019 asset-back debt securities which mature in November 2021. The borrowings have an effective interest rate of 5.97%.

The securitization vehicle was designed by iQIYI with the sole purpose to acquire receivable balances from iQIYI's suppliers in order to securitize the senior asset-backed securities with guaranteed returns sold to third-party investors. iQIYI has a variable interest in the securitization vehicle through its interest in the subordinated asset-backed securities issued by the securitization vehicle which bear the residual loss. As a result, iQIYI considers itself the primary beneficiary and consolidates the securitization vehicle given iQIYI has (i) the power to govern the activities that most significantly impact its economic performance, and (ii) is obligated to absorb losses that could potentially be significant to the securitization vehicle.

As a result of the series of transactions described above, the payment terms of iQIYI's original trade payables were substantially modified and considered extinguished as the nature of the original liability has changed from that of a trade payable to loan borrowings from third-party investors.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

12. LOANS PAYABLE—continued

Long-term Loans—continued

iQIYI—continued

As of December 31, 2018, 2019 and 2020, the outstanding borrowings as a result of the reverse factoring arrangements were RMB444 million, RMB898 million and RMB498 million, respectively. RMB75 million and RMB371 million of 2018 asset-backed debt securities were repaid when they became due in December 2019 and December 2020, respectively. RMB30 million of 2019 asset-backed debt securities was repaid when it became due in October 2020. RMB498 million of asset-backed debt securities is repayable within one year and are included in "Long-term loans, current portion".

13. NOTES PAYABLE

Baidu, Inc.

The Company issued and publicly sold unsecured senior notes, and the details of the tranches are shown below:

	Issue date	Principal amount (US$ million)	Mature date	Effective interest rate
2022 Ten-year Notes	November 28, 2012	750	November 28, 2022	3.59%
2018 Notes	August 6, 2013	1,000	August 6, 2018	3.39% *
2019 Notes	June 9, 2014	1,000	June 9, 2019	3.00% *
2020 Notes	June 30, 2015	750	June 30, 2020	3.13% *
2025 Ten-year Notes	June 30, 2015	500	June 30, 2025	4.22%
2022 Five-year Notes	July 6, 2017	900	July 6, 2022	3.08%
2027 Notes	July 6, 2017	600	July 6, 2027	3.73%
2023 Notes	March 29, 2018	1,000	September 29, 2023	3.99%
2028 March Notes	March 29, 2018	500	March 29, 2028	4.50%
2024 Notes	November 14, 2018	600	May 14, 2024	4.51%
2024 Notes	December 10, 2018	250	May 14, 2024	4.54%
2028 November Notes	November 14, 2018	400	November 14, 2028	4.99%
2025 Five-year Notes	April 7, 2020	600	April 7, 2025	3.22%
2030 April Notes	April 7, 2020	400	April 7, 2030	3.54%
2026 Notes	October 9, 2020	650	April 9, 2026	1.81%
2030 October Notes	October 9, 2020	300	October 9, 2030	2.43%

Note:

* The 2018 Notes, 2019 Notes and 2020 Notes were fully repaid when they became due.

The notes listed above are collectively referred to as the "Notes."

The 2022 Ten-year Notes bear interest at the rate of 3.500% per annum. Interest is payable semi-annually in arrears on and of each year, beginning on May 28, 2013.

The 2018 Notes bear interest at the rate of 3.25% per annum. Interest is payable semi-annually in arrears on and of each year, beginning on February 6, 2014.

The 2019 Notes bear interest at the rate of 2.750% per annum. Interest is payable semi-annually in arrears on and of each year, beginning on December 9, 2014.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

13. NOTES PAYABLE—continued

Baidu, Inc.—continued

The 2020 Notes bear interest at the rate of 3.000% per annum and the 2025 Ten-year Notes bear interest at the rate of 4.125% per annum. Interest is payable semi-annually in arrears on and of each year, beginning on December 30, 2015.

The 2022 Five-year Notes bear interest at the rate of 2.875% per annum and the 2027 Notes bear interest at the rate of 3.625% per annum. Interest is payable semi-annually in arrears on and of each year, beginning on January 6, 2018.

The 2023 Notes bear interest at the rate of 3.875% per annum and the 2028 March Notes bear interest at the rate of 4.375% per annum. Interest is payable semi-annually in arrears on and of each year, beginning on September 29, 2018.

The 2024 Notes including US$600 million issued in November and US$250 million in December 2018, respectively, bear interest at the rate of 4.375% per annum and the 2028 November Notes bear interest at the rate of 4.875% per annum. Interest is payable semi-annually in arrears on and of each year, beginning on May 14, 2019.

The 2025 Five-year Notes bear interest at the rate of 3.075% per annum and the 2030 April Notes bear interest at the rate of 3.425% per annum. Interest is payable semi-annually in arrears on and of each year, beginning on October 7, 2020.

The 2026 Notes bear interest at the rate of 1.720% per annum and the 2030 October Notes bear interest at the rate of 2.375% per annum. Interest is payable semi-annually in arrears on and of each year, beginning on April 9, 2021.

At maturity, the Notes are payable at their principal amount plus accrued and unpaid interest thereon.

The Notes do not contain any financial covenants or other significant restrictions. In addition, the Notes are unsecured and rank lower than any secured obligation of the Group and have the same liquidation priority as any other unsecured liabilities of the Group, but senior to those expressly subordinated obligations, if any. The Company may, at its discretion, redeem all or any portion of the Notes at any time, at the greater of the principal amount and the make whole amount plus accrued and unpaid interest. In addition, for the 2023 Notes, 2028 March Notes, 2024 Notes and 2028 November Notes, 2025 Five-year Notes, 2030 April Notes, 2026 Notes and 2030 October Notes, the Company may at its discretion, redeem all or any portion of the Notes at one or three months before the maturity date of respective notes, at a price equal to the greater of 100% of the principal amount of such Notes plus accrued and unpaid interest, if any, to (but not including) the redemption date. As of December 31, 2020, the Company does not intend to redeem any portion of the Notes prior to the stated maturity dates. For certain Notes, the Company has the obligation to redeem the Notes if a change in control occurs as defined in the indenture of the Notes.

The outstanding Notes were issued at a discount amounting to US$20 million (equivalent to RMB131 million). The total issuance costs of US$36 million (equivalent to RMB234 million) were presented as a direct deduction from the principal amount of the outstanding Notes on the consolidated balance sheets. Both the discount and the issuance costs are amortized as interest expense using the effective interest rate method through the maturity dates of the Notes.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

13. NOTES PAYABLE—continued

Baidu, Inc.—continued

The principal amount and unamortized discount and debt issuance costs as of December 31, 2018, 2019 and 2020 were as follows:

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Principal amount	49,867	43,519	48,638
Unamortized discount and debt issuance costs	(261)	(210)	(230)
	49,606	43,309	48,408

The following table summarizes the aggregate required repayments of the principal amounts of the Company's long-term debts (including the notes payable and loans payable (Note 12) but excluding convertible notes (Note 14)), in the succeeding five years and thereafter:

	RMB
	(In millions)
For the years ending December 31,	
2021	7,465
2022	10,766
2023	6,525
2024	5,546
2025	7,178
Thereafter	18,596

14. CONVERTIBLE NOTES

iQIYI 2023 Convertible Notes

In December 2018, iQIYI issued US$750 million convertible senior notes due 2023 ("iQIYI 2023 Convertible Notes"). The iQIYI 2023 Convertible Notes are senior, unsecured obligations of iQIYI, and interest is payable semi-annually in cash at a rate of 3.75% per annum with a maturity date of December 1, 2023, unless redeemed, repurchased or converted prior to such date. The initial conversion rate of the iQIYI 2023 Convertible Notes is 37.1830 of iQIYI's ADSs per US$1,000 principal amount of the iQIYI 2023 Convertible Notes. Upon conversion, iQIYI will pay or deliver to such converting holders, as the case may be, cash, ADSs, or a combination of cash and ADSs, at its election.

Concurrently with the issuance of the iQIYI 2023 Convertible Notes, iQIYI purchased capped call options on iQIYI's ADS with certain counterparties at a price of US$68 million. The capped call exercise price is equal to the initial conversion price of the iQIYI 2023 Convertible Notes and the cap price is US$38.42 per ADS, subject to certain adjustments under the terms of the capped call transaction. The cost of the capped call was recorded as a reduction of the Company's additional paid-in capital and non-controlling interests on the consolidated balance sheets with no subsequent remeasurements to fair value.

As the conversion option may be settled entirely or partially in cash at iQIYI's option, the Company separated the iQIYI 2023 Convertible Notes into liability and equity components in accordance with

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

14. CONVERTIBLE NOTES—continued

iQIYI 2023 Convertible Notes—continued

ASC Subtopic 470-20, *Debt with Conversion and Other Options*. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that did not have an associated conversion feature. The carrying amount of the equity component representing the conversion option was determined by deducting the fair value of the liability component from the initial proceeds and recorded as additional paid-in capital. Debt issuance costs were allocated to the liability and equity components based on the same proportion as the recognized amounts bifurcated based on gross proceeds from the iQIYI 2023 Convertible Notes. The difference between the principal amount of the iQIYI 2023 Convertible Notes and the liability component was considered debt discount and amortized at an effective interest rate of 7.04% to accrete the discounted carrying value of the iQIYI 2023 Convertible Notes to its face value on December 1, 2021, the put date of the iQIYI 2023 Convertible Notes. The holders may require iQIYI to repurchase all or portion of the iQIYI 2023 Convertible Notes for cash on December 1, 2021, or upon a fundamental change, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest.

iQIYI 2025 Convertible Notes

In March 2019, iQIYI issued US$1.2 billion convertible senior notes due 2025 ("iQIYI 2025 Convertible Notes"). The iQIYI 2025 Convertible Notes are senior, unsecured obligations of iQIYI, and interest is payable semi-annually in cash at a rate of 2.00% per annum with a maturity date of April 1, 2025, unless redeemed, repurchased or converted prior to such date. The initial conversion rate of the iQIYI 2025 Convertible Notes is 33.0003 of iQIYI's ADSs per US$1,000 principal amount of the iQIYI 2025 Convertible Notes. Upon conversion, iQIYI will pay or deliver to such converting holders, as the case may be, cash, ADSs, or a combination of cash and ADSs, at its election.

Concurrently with the issuance of the iQIYI 2025 Convertible Notes, iQIYI purchased capped call options on iQIYI's ADS with certain counterparties at a price of US$85 million. The capped call exercise price is equal to the initial conversion price of the iQIYI 2025 Convertible Notes and the cap price is US$40.02 per ADS, subject to certain adjustments under the terms of the capped call transaction. The cost of the capped call was recorded as a reduction of the Company's additional paid-in capital and non-controlling interests on the consolidated balance sheets with no subsequent remeasurements to fair value.

The accounting of iQIYI 2025 Convertible Notes is similar to that of iQIYI 2023 Convertible Notes. The difference between the principal amount of the iQIYI 2025 Convertible Notes and the liability component was considered debt discount and amortized at an effective interest rate of 6.01% to accrete the discounted carrying value of the iQIYI 2025 Convertible Notes to its face value on April 1, 2023, the put date of the iQIYI 2025 Convertible Notes. The holders may require iQIYI to repurchase all or portion of the iQIYI 2025 Convertible Notes for cash on April 1, 2023, or upon a fundamental change, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest.

iQIYI 2026 Convertible Notes

In December 2020, iQIYI issued US$800 million convertible senior notes (" iQIYI 2026 Convertible Notes"). The iQIYI 2026 Convertible Notes are senior, unsecured obligations of iQIYI, and interest is payable semi-annually in cash at a rate of 4.00% per annum with a maturity date of December 15, 2026, unless redeemed, repurchased or converted prior to such date. The initial conversion rate of

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

14. CONVERTIBLE NOTES—continued

iQIYI 2026 Convertible Notes—continued

iQIYI 2026 Convertible Notes is 44.8179 of iQIYI's ADSs per US$1,000 principal amount of the iQIYI 2026 Convertible Notes. Upon conversion, iQIYI will pay or deliver to such converting holders, as the case may be, cash, ADSs, or a combination of cash and ADSs, at its election.

The accounting of iQIYI 2026 Convertible Notes is similar to that of iQIYI 2023 Convertible Notes. The difference between the principal amount of the iQIYI 2026 Convertible Notes and the liability component was considered debt discount and amortized at an effective interest rate of 6.94% to accrete the discounted carrying value of the iQIYI 2026 Convertible Notes to its face value on August 1, 2024, the put date of the iQIYI 2026 Convertible Notes. The holders may require iQIYI to repurchase all or portion of the iQIYI 2026 Convertible Notes for cash on August 1, 2024, or upon a fundamental change, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest.

The iQIYI 2023 Convertible Notes, the iQIYI 2025 Convertible Notes and the iQIYI 2026 Convertible Notes are collectively referred to the Convertible Notes.

The carrying amount of the Convertible Notes as of December 31, 2018, 2019 and 2020 were as follows:

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Liability component:			
Principal	5,158	13,578	17,954
Less: unamortized debt discount	446	1,281	1,275
Net carrying amount	4,712	12,297	16,679
Equity component:			
Carrying amount	362	1,349	1,744

For the years ended December 31, 2018, 2019 and 2020, the amount of interest cost recognized relating to both the contractual interest coupon and amortization of the discount on the liability component were RMB24 million, RMB670 million and RMB799 million, respectively. As of December 31, 2020, the liability component of the iQIYI 2023 Convertible Notes, the iQIYI 2025 Convertible Notes and the iQIYI 2026 Convertible Notes would be accreted up to the principal amount of US$750 million, US$1.2 billion and US$800 million over a remaining period of 0.92 years 2.25 years and 3.59 years, respectively. The amount repayable within the next twelve months are classified as "Convertible senior notes, current portion" in the consolidated balance sheets.

The aggregate scheduled maturities of RMB4.9 billion, RMB7.8 billion and RMB5.2 billion of the Convertible Notes will be repaid when they become due in 2023, 2025 and 2026, respectively, assuming there is no conversion of the Convertible Notes, no redemption of the Convertible Notes prior to their maturities and the convertible senior notes bondholders hold the Convertible Notes until their maturities and iQIYI elects to fully settle the Convertible Notes in cash.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

15. LEASES

The Company's operating leases mainly related to land, office facilities, IDC facilities and vehicles. For leases with terms greater than 12 months, the Company records the related asset and lease liability at the present value of lease payments over the term. Certain leases include rental escalation clauses, renewal options and/or termination options that are factored into the Company's determination of lease payments when appropriate. As of December 31, 2019 and 2020, finance leases were insignificant.

As of December 31, 2020, the weighted average remaining lease term was 16.2 years and weighted average discount rate was 4.53% for the Group's operating leases.

Operating lease cost was RMB2.7 billion and RMB3.0 billion for the years ended December 31, 2019 and 2020, respectively, which excluded cost of short-term contracts. Short-term lease cost was RMB434 million and RMB427 million for the years ended December 31, 2019 and 2020, respectively. Variable lease cost was immaterial for the years ended December 31, 2019 and 2020. For the year ended December 31, 2019 and 2020, no lease cost for operating or finance leases was capitalized.

Supplemental cash flow information related to operating leases was as follows:

	For the years ended December 31,	
	2019	2020
	RMB	RMB
	(In millions)	
Cash payments for operating leases	2,631	5,187
ROU assets obtained in exchange for operating lease liabilities	3,896	2,841

Future lease payments under operating leases as of December 31, 2020 were as follows:

	Operating leases
	RMB (In millions)
Year ending December 31,	
2021	2,430
2022	1,856
2023	1,433
2024	1,032
2025	464
Thereafter	624
Total future lease payments	7,839
Less: Imputed interest	780
Total lease liability balance	7,059

As of December 31, 2020, additional operating leases that have not yet commenced were immaterial.

16. INCOME TAXES

Cayman Islands and BVI

Under the current laws of the Cayman Islands and BVI, the Company is not subject to tax on income or capital gains. Additionally, upon payment of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

16. INCOME TAXES—continued

Hong Kong

Subsidiaries in Hong Kong are subject to Hong Kong Profits Tax rate at 16.5%, and foreign-derived income is exempted from income tax. There are no withholding taxes in Hong Kong on remittance of dividends.

Japan

As a result of the Japanese tax regulations amendments, the effective income tax rate are approximately 31%, 31% and 31% for the years ended December 31, 2018, 2019 and 2020, respectively.

China

Under the PRC Enterprise Income Tax ("EIT") Law, which has been effective since January 1, 2008, domestic enterprises and Foreign Investment Enterprises (the "FIE") are subject to a unified 25% enterprise income tax rate, except for certain entities that are entitled to preferential tax treatments. Preferential EIT rates at 15% and 10% are available for qualified "High and New Technology Enterprises" ("HNTEs") and "Key Software Enterprise" ("KSE"), respectively. The HNTE certificate is effective for a period of three years and the KSE is subject to relevant governmental authorities' annual assessment based on self-assessment supporting documents filed with the tax authorities each year.

Baidu Online, Baidu China and Baidu International enjoyed a reduced tax rate of 10% as qualified KSEs in 2018 and 2019. Certain other PRC subsidiaries and VIEs, including Baidu Netcom, are qualified HNTEs and enjoy a reduced tax rate of 15% for the years presented, which will expire in 2022 and 2023. Certain entities must file required supporting documents with the tax authorities before using the preferential rates. Whether the entity is entitled to enjoy a preferential rate as a KSE is subject to relevant governmental authorities' assessment each year. An entity could re-apply for the HNTE certificate when the prior certificate expires. Historically, all of the Company's subsidiaries and VIEs successfully re-applied for the certificates when the prior ones expired.

A certificate for the current year might be obtained in the following year as a result of the stringent inspection and approval process by the governmental authorities. The Company would record an income tax reversal in the year when the certificate is obtained for the over-paid or over-accrued provisional tax in connection with the grant of a more favorable tax rate for the prior year.

Under the current EIT Law, dividends for earnings derived from January 1, 2008 and onwards paid by PRC entities to any of their foreign non-resident enterprise investors are subject to a 10% withholding tax. A lower tax rate will be applied if tax treaty or arrangement benefits are available. Under the tax arrangement between the PRC and Hong Kong, the reduced withholding tax rate for dividends paid by PRC entities is 5% provided the Hong Kong investors meet the requirements as stipulated by relevant PRC tax regulations, such as the beneficiary owner test. Capital gains derived from PRC are also subject to a 10% PRC withholding tax.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

16. INCOME TAXES—continued

China—continued

Income (loss) before income taxes consists of:

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
PRC	23,524	13,076	19,711
Non-PRC	3,801	(13,416)	3,379
	27,325	(340)	23,090

Except for the investment related gain recognized, the pre-tax losses from non-PRC operations consist primarily of operating costs, administration expenses, interest expenses and share-based compensation expenses.

Income taxes consist of:

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Current income tax	6,184	3,564	4,668
Income tax refund due to reduced tax rate	(680)	(920)	(719)
Adjustments of deferred tax assets due to change in tax rates	—	9	(5)
Deferred income tax (benefit) expense	(761)	(705)	120
	4,743	1,948	4,064

The reconciliation of the actual income taxes to the amount of tax computed by applying the aforementioned statutory income tax rate to pre-tax income is as follows:

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions, except for per share data)	RMB
Expected taxation at PRC statutory tax rate	6,831	(85)	5,773
Effect of differing tax rates in different jurisdictions	493	3,299	208
Non-taxable income	(1,555)	(419)	(995)
Non-deductible expenses	935	2,124	3,416
Research and development super-deduction	(1,047)	(1,245)	(1,549)
Effect of PRC preferential tax rates and tax holiday	(2,250)	(1,327)	(2,891)
Effect of tax rate changes on deferred taxes	—	9	(5)
Reversal of prior year's EIT	(616)	(1,134)	(951)
PRC withholding tax	553	(224)	122
Addition to valuation allowance	1,399	950	936
Taxation for the year	4,743	1,948	4,064
Effective tax rate	17%	(573%)	18%
Effect of preferential tax rates inside the PRC on basic earnings per Class A and Class B ordinary share *(Note)*	0.81	0.49	1.06

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

16. INCOME TAXES—continued

China—continued

Note: Effect of preferential tax rates inside the PRC on basic earnings per Class A and Class B ordinary share for the years ended December 31, 2018, 2019 and 2020 have been retrospectively adjusted for the Share Subdivision that became effective on March 1, 2021, as detailed in Note 2.(a) and Note 21.

The tax effects of temporary differences that gave rise to the deferred tax balances at December 31, 2018, 2019 and 2020 are as follows:

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	2020
Deferred tax assets:			
Allowance for credit loss	252	332	452
Accrued expenses, payroll and others	4,284	4,820	5,456
Fixed assets depreciation	60	151	106
Net operating loss carry-forward	1,609	1,733	1,811
Less: valuation allowance	(3,881)	(4,843)	(5,895)
Deferred tax assets, net	2,324	2,193	1,930

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Deferred tax liabilities:			
Long-lived assets arising from acquisitions	360	275	406
Withholding tax on PRC subsidiaries' undistributed earnings	619	1,621	1,381
Tax on capital gains	2,778	1,159	943
Other	342	218	593
	4,099	3,273	3,323

The Group offset deferred tax liabilities and assets pertaining to a particular tax-paying component of the Group within a particular jurisdiction. The total income tax expenses were RMB4,743 million, RMB1,948 million and RMB4,064 million for the the years ended December 31, 2018, 2019 and 2020, respectively. The change in income tax expense is mainly due to changes of overall profits before tax. The effective tax rate for the the year ended December 31, 2020 is lower than the PRC statutory EIT rate of 25% mainly due to international income tax rate and preferential income tax rate impact, research and development super-deduction, and change in withhold rate and Key Software Enterprise status obtained.

As of December 31, 2020, the Company had tax losses of approximately RMB9.7 billion deriving from entities in the PRC, Hong Kong and Japan. The tax losses in Japan can be carried forward for nine years to offset future taxable profit. The tax losses in PRC can be carried forward for five years to offset future taxable profit, and the period was extended to 10 years for entities qualified as HNTE in 2019 and thereafter. The tax losses of entities in the PRC and Japan will expire from 2021 to 2030, if not utilized. The tax losses in Hong Kong can be carried forward with no expiration date.

The Company evaluated its income tax uncertainty under ASC 740. ASC 740 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

16. INCOME TAXES—continued

China—continued

meet before being recognized in the financial statements. The Company elects to classify interest and penalties related to an uncertain tax position, if and when required, as part of income tax expense in the consolidated statements of comprehensive income (loss). The Company does not expect the amount of unrecognized tax benefits to increase significantly in the next 12 months. In general, the PRC tax authorities have up to five years to conduct examinations of the tax filings of the Company's PRC subsidiaries. Accordingly, the PRC subsidiaries' tax years of 2015 – 2020 remain open to examination by the respective tax authorities. The Company may also be subject to the examination of the tax filings in other jurisdictions, which are not material to the consolidated financial statements.

As of December 31, 2020, dividend distribution withholding tax for the potential remittance of earnings from the PRC subsidiaries to offshore entities was RMB1.4 billion. The Company believes that the underlying dividends will be distributed in the future for offshore use, such as merger and acquisition activities. The Company did not provide for additional deferred income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries during the years presented on the basis of its intent to permanently reinvest its foreign subsidiaries' earnings. As of December 31, 2020, the total amount of undistributed earnings from the PRC subsidiaries and the VIEs for which no withholding tax has been accrued was RMB154.1 billion. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable. Under the PRC tax regulations, dividends from PRC companies to their overseas parents in respect of earnings derived from January 1, 2008 onwards are subject to PRC dividend withholding tax at 10%. Such rate could be reduced to 5% should tax treaty benefits be applicable.

17. EMPLOYEE DEFINED CONTRIBUTION PLAN

Full time employees of the Group in the PRC participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries. The Group has no legal obligation for the benefits beyond the contributions. Total amounts for such employee benefits, which were expensed as incurred, were RMB2.9 billion, RMB3.2 billion and RMB2.7 billion for the years ended December 31, 2018, 2019 and 2020, respectively.

18. COMMITMENTS AND CONTINGENCIES

Capital Commitments

The Group's capital commitments primarily relate to commitments in connection with the expansion and improvement of its network infrastructure and its plan to build additional office buildings and cloud computing based data centers. Total capital commitments contracted but not yet reflected in the financial statements amounted to RMB754 million as of December 31, 2020. Almost all of the commitments relating to the network infrastructure, office building and cloud computing based data centers are to be fulfilled within one year.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

18. COMMITMENTS AND CONTINGENCIES—continued

Commitments for bandwidth and property management fees

Future minimum payments under non-cancelable agreements for bandwidth and property management fees consist of the following as of December 31, 2020:

	RMB
	(In millions)
2021	742
2022	323
2023	135
2024	81
2025	45
Thereafter	47
	1,373

Future minimum lease payments for operating lease commitments as of December 31, 2020 are disclosed in Note 15.

Licensed Copyrights and Produced Content Commitments

Future minimum payments under non-cancelable agreements for licensed copyrights and produced content consist of the following as of December 31, 2020:

	RMB
	(In millions)
2021	10,480
2022	6,239
2023	3,421
2024	1,286
2025	345
Thereafter	—
	21,771

Investment Commitments

The Group's investment commitments primarily relate to capital contribution obligations under certain arrangements which do not have contractual maturity date. The total investment commitments contracted but not yet reflected in the consolidated financial statements amounted to RMB1.5 billion.

Guarantees

The Group accounts for guarantees in accordance with ASC Topic 460, *Guarantees* ("ASC 460"). Accordingly, the Company evaluates its guarantees if any to determine whether (a) the guarantee is specifically excluded from the scope of ASC 460, (b) the guarantee is subject to ASC 460 disclosure requirements only, but not subject to the initial recognition and measurement provisions, or (c) the guarantee is required to be recorded in the financial statements at fair value.

The corporate by-laws require that the Company indemnify its officers and directors, as well as those who act as directors and officers of other entities at the Company's request, against expenses,

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

18. COMMITMENTS AND CONTINGENCIES—continued

Guarantees—continued

judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceedings arising out of their services to the Company. In addition, the Company entered into separate indemnification agreements with each director and each executive officer of the Company that provide for indemnification of these directors and officers under similar circumstances and under additional circumstances. The indemnification obligations are more fully described in the by-laws and the indemnification agreements. The Company purchases standard directors and officers insurance to cover claims or a portion of the claims made against its directors and officers. Since a maximum obligation is not explicitly stated in the Company's by-laws or in the indemnification agreements and will depend on the facts and circumstances that arise out of any future claims, the overall maximum amount of the obligations cannot be reasonably estimated.

Historically, the Company was not required to make payments related to these obligations, and the fair value for these obligations was nil on the consolidated balance sheets as of December 31, 2018, 2019 and 2020.

Litigation

The Group was involved in certain cases pending in various PRC, U.S. and Brazil courts and arbitration as of December 31, 2020. These cases include copyright infringement cases, unfair competition cases, and defamation cases, among others. Adverse results in these lawsuits may include awards of damages and may also result in, or even compel, a change in the Company's business practices, which could result in a loss of revenue or otherwise harm the business of the Company.

Starting in April 2020, the Group and certain of its officers were named as defendants in putative securities class actions filed in federal court. The case was purportedly brought on behalf of a class of persons who allegedly suffered damages as a result of alleged misstatements and omissions in the Group's public disclosure documents related to Baidu Feed, which they believe did not comply with "PRC laws and regulations in all material respects". In addition, the Group received a complaint alleging that between April 8, 2016 and August 13, 2020, the Group made material misrepresentations in disclosures filed with the SEC by misrepresenting the financial and business condition of iQIYI and failing to disclose that iQIYI had inadequate controls. Both of those cases remain in preliminary stage, the likelihood of any unfavorable outcome or the amount or range of any potential loss cannot be reasonably estimated at the issuance date of the consolidated financial statements. As a result, as of December 31, 2020, the Group did not record any liabilities for the loss contingencies pertaining to the cases described above.

For many proceedings, the Company is currently unable to estimate the reasonably possible loss or a range of reasonably possible losses as the proceedings are in the early stages, and/or there is a lack of clear or consistent interpretation of laws specific to the industry-specific complaints among different jurisdictions. As a result, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, which includes eventual loss, fine, penalty or business impact, if any, and therefore, an estimate for the reasonably possible loss or a range of reasonably possible losses cannot be made. However, the Company believes that such matters, individually and in the aggregate, when finally resolved, are not reasonably likely to have a material adverse effect on the Company's consolidated results of operations, financial position and cash flows. With respect to the limited number of

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

18. COMMITMENTS AND CONTINGENCIES—continued

Litigation—continued

proceedings for which the Company was able to estimate the reasonably possible losses or the range of reasonably possible losses, such loss estimates were insignificant.

19. REDEEMABLE NONCONTROLLING INTERESTS

	2018	2019	2020
	RMB	RMB	RMB
		(In millions)	
Balance as of January 1	11,022	716	1,109
Business combinations (Note 3)	698	182	—
Issuance of subsidiary shares	—	100	1,866
Accretion of redeemable noncontrolling interests	146	111	127
Conversion of iQIYI preferred shares recognized as redeemable noncontrolling interests to ordinary shares	(11,150)	—	—
Balance as of December 31	716	1,109	3,102

In October 2018, the Company acquired additional shares of a former equity method investee, resulting in the investee becoming a subsidiary of the Company. The subsidiary had issued 159,820,917 outstanding preferred shares to certain shareholders, which could be redeemed by such shareholders upon the occurrence of certain events that are not solely within the control of the subsidiary. Therefore, these preferred shares were accounted for as redeemable noncontrolling interests (Note 3).

In September 2020, the Company entered into definitive agreements to issue Series A preferred shares of the Group's smart living business, or Smart Living Group ("SLG"). SLG had issued 61,666,667 outstanding preferred shares to certain shareholders, which could be redeemed by such shareholders upon the occurrence of certain events that are not solely within the control of the subsidiary. Therefore, these preferred shares were accounted for as redeemable noncontrolling interests.

The Company accounts for the changes in accretion to the redemption value in accordance with ASC Topic 480, *Distinguishing Liabilities from Equity.* The Company elects to use the effective interest method to account for the changes of redemption value over the period from the date of issuance to the earliest redemption date of the noncontrolling interest.

20. SHAREHOLDERS' EQUITY

Ordinary Shares

The authorized share capital consisted of 69,632,000,000 ordinary shares (previously 870,400,000 ordinary shares before the Share Subdivision as detailed in Note 2.(a)) at a par value of US$0.000000625 per share (previously US$0.00005 per share before the Share Subdivision as detailed in Note 2.(a)), of which 66,000,000,000 shares were designated as Class A ordinary shares, 2,832,000,000 as Class B ordinary shares, and 800,000,000 shares designated as preferred shares (previously of which 825,000,000 shares were designated as Class A ordinary shares, 35,400,000 as Class B ordinary shares, and 10,000,000 shares designated as preferred shares before the Share Subdivision as detailed in Note 2.(a) and Note 21). The rights of the holders of Class A and Class B ordinary shares are identical, except with respect to voting and conversion rights. Each share of Class A ordinary shares is entitled to one vote per share and is not convertible into Class B ordinary

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

20. SHAREHOLDERS' EQUITY—continued

Ordinary Shares—continued

shares under any circumstances. Each share of Class B ordinary shares is entitled to ten votes per share and is convertible into one Class A ordinary share at any time by the holder thereof. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity that is not an affiliate of such holder, such Class B ordinary shares would be automatically converted into an equal number of Class A ordinary shares. The number of Class B ordinary shares transferred to Class A ordinary shares was nil, nil and 4,200,000 in the years ended December 31, 2018, 2019 and 2020, respectively.

As of December 31, 2020, there were 2,107,228,720 and 571,900,320 Class A and Class B ordinary shares outstanding (previously 26,340,359 and 7,148,754 Class A and Class B ordinary shares before the Share Subdivision as detailed in Note 2.(a)), respectively. As of December 31, 2018, 2019 and 2020, there were no preferred shares issued and outstanding.

On June 27, 2018, the Company announced a share repurchase program under which the Company proposed to acquire up to an aggregate of US$1.0 billion of its ordinary shares over the next 12 months in the open market or through privately negotiated transactions, depending on market conditions and in accordance with applicable rules and regulations.

On May 16, 2019, the Company announced a share repurchase program under which the Company proposed to acquire up to an aggregate of US$1.0 billion of its ordinary shares, effective until July 1, 2020 in the open market or through privately negotiated transactions, depending on market conditions and in accordance with applicable rules and regulations.

On May 13, 2020, the Company announced a share repurchase program ("2020 share repurchase program") under which the Company proposed to acquire up to an aggregate of US$1.0 billion of its ordinary shares, effective until July 1, 2021 in the open market or through privately negotiated transactions, depending on market conditions and in accordance with applicable rules and regulations. In August 2020, the board of directors approved a change to the 2020 share repurchase program, increasing the repurchase authorization from US$1.0 billion to US$3.0 billion, and in December 2020, the repurchase authorization was further increased from US$3.0 billion to US$4.5 billion, which is effective through December 31, 2022.

The Company repurchased 16,573,200, 53,162,720 and 126,096,000 Class A ordinary shares (previously 207,165, 664,534 and 1,576,200 Class A ordinary shares before the Share Subdivision as detailed in Note 2.(a)) from the open market with an aggregate purchase price of RMB3.3 billion, RMB5.0 billion and RMB13.1 billion during the years ended December 31, 2018, 2019 and 2020. The repurchased shares were cancelled under Cayman Islands law upon repurchase and the difference between the par value and the repurchase price was debited to retained earnings.

Retained Earnings

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, the Company's PRC subsidiaries, being foreign invested enterprises established in China, are required to make appropriations to certain statutory reserves, namely a general reserve fund, an enterprise expansion fund, a staff welfare fund and a bonus fund, all of which are appropriated from net profit as reported in their PRC statutory accounts. Each of the Company's PRC subsidiaries is

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

20. SHAREHOLDERS' EQUITY—continued

Retained Earnings—continued

required to allocate at least 10% of its after-tax profits to a general reserve fund until such fund has reached 50% of its respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus funds are at the discretion of the Company's subsidiaries.

In accordance with the China Company Laws, the Company's VIEs must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserve funds, namely a statutory surplus fund, a statutory public welfare fund and a discretionary surplus fund. Each of the Company's VIEs is required to allocate at least 10% of its after-tax profits to the statutory surplus fund until such fund has reached 50% of its respective registered capital. Appropriations to the statutory public welfare fund and the discretionary surplus fund are made at the discretion of the Company's VIEs.

General reserve and statutory surplus funds are restricted to set-off against losses, expansion of production and operation and increasing registered capital of the respective company. Staff welfare and bonus fund and statutory public welfare funds are restricted to capital expenditures for the collective welfare of employees. The reserves are not allowed to be transferred to the Company in the form of cash dividends, loans or advances, nor are they allowed for distribution except under liquidation.

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
PRC statutory reserve funds	515	626	806
Unreserved retained earnings	128,731	125,642	134,478
Total retained earnings	129,246	126,268	135,284

Under PRC laws and regulations, there are restrictions on the Company's PRC subsidiaries and VIEs with respect to transferring certain of their net assets to the Company either in the form of dividends, loans, or advances. Amounts of net assets restricted include paid in capital and statutory reserve funds of the Company's PRC subsidiaries and the net assets of the VIEs in which the Company has no legal ownership, totaling RMB25.7 billion, RMB40.8 billion and RMB45.0 billion as of December 31, 2018, 2019 and 2020, respectively.

Furthermore, cash transfers from the Company's PRC subsidiaries to their parent companies outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of the PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency denominated obligations.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

20. SHAREHOLDERS' EQUITY—continued

Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component, net of tax, were as follows:

	Foreign currency translation adjustment	Unrealized gains on available-for-sale investments	Total
	RMB	RMB (In millions)	RMB
Balance at December 31, 2017	**(888)**	**1,818**	**930**
Cumulative effect of accounting change*	—	(1,854)	(1,854)
Other comprehensive income before reclassification	114	4,117	4,231
Amounts reclassified from accumulated other comprehensive income	80	(2,171)	(2,091)
Net current-period other comprehensive income	194	92	286
Other comprehensive income attribute to noncontrolling interests and redeemable noncontrolling interests	(1,006)	—	(1,006)
Balance at December 31, 2018	**(1,700)**	**1,910**	**210**
Other comprehensive income before reclassification	207	1,981	2,188
Amounts reclassified from accumulated other comprehensive income	(989)	(2,689)	(3,678)
Net current-period other comprehensive loss	(782)	(708)	(1,490)
Other comprehensive loss attribute to noncontrolling interests and redeemable noncontrolling interests	(102)	(1)	(103)
Balance at December 31, 2019	**(2,584)**	**1,201**	**(1,383)**
Other comprehensive income before reclassification	1,936	380	2,316
Amounts reclassified from accumulated other comprehensive income	—	(541)	(541)
Net current-period other comprehensive income (loss)	1,936	(161)	1,775
Other comprehensive loss attribute to noncontrolling interests and redeemable noncontrolling interests	(192)	(1)	(193)
Balance at December 31, 2020	**(840)**	**1,039**	**199**

Note:

* Adjustment of net unrealized gains related to available-for-sale equity investments from accumulated other comprehensive income to opening retained earnings as a result of the adoption of ASU 2016-13 on January 1, 2018.

The amounts reclassified out of accumulated other comprehensive income represent realized foreign currency translation adjustments, which mainly arise from the disposal of partial interests in Trip and realized gains on the sales of available-for-sale investments, which were recorded in "Others, net" in the consolidated statements of comprehensive income (loss). The amounts reclassified were determined on the basis of specific identification. Losses on intracompany foreign currency transactions that are of a long-term-investment nature in the amount of nil, nil and RMB1.2 billion were included in the foreign currency translation adjustment for the years ended December 31, 2018, 2019 and 2020, respectively.

In October 2019, the Company completed a partial disposal of its investment in Trip and the corresponding accumulated other comprehensive income of RMB989 million was reclassified to

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

20. SHAREHOLDERS' EQUITY—continued

Accumulated Other Comprehensive Income (Loss)—continued

income and recorded as "Others, net" in the consolidated statement of comprehensive loss for the year ended December 31, 2019.

The following table sets forth the tax benefit (expense) allocated to each component of other comprehensive income (loss) for the years ended December 31, 2018, 2019 and 2020:

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Unrealized gains on available-for-sale investments			
Other comprehensive income before reclassification	(409)	(280)	(59)
Amounts reclassified from accumulated other comprehensive income	328	402	83
Net current-period other comprehensive income (loss)	(81)	122	24

21. EARNINGS PER SHARE ("EPS")

Following the Share Subdivision as detailed in Note 2.(a), each ordinary share was subdivided into eighty ordinary shares and each ADS represents eight Class A ordinary shares. The weighted average number of ordinary shares used for the calculation of basic and diluted earnings per share/ADS for the years ended December 31, 2018, 2019 and 2020 have been retrospectively adjusted.

A reconciliation of net income attributable to Baidu, Inc. in the consolidated statements of comprehensive income (loss) to the numerator for the computation of basic and diluted earnings per share for the years ended December 31, 2018, 2019 and 2020 is as follows:

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Net income attributable to Baidu, Inc.	27,573	2,057	22,472
Accretion of the redeemable noncontrolling interests	(130)	(77)	(88)
Numerator for basic EPS computation	27,443	1,980	22,384
Impact of subsidiaries' and investees' diluted earnings per share	—	(28)	—
Numerator for diluted EPS computation	27,443	1,952	22,384

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

21. EARNINGS PER SHARE ("EPS")—continued

The following table sets forth the computation of basic and diluted earnings per Class A and Class B ordinary share and basic and diluted earnings per ADS:

	For the years ended December 31,					
	2018		2019		2020	
	Class A RMB	Class B RMB	Class A RMB	Class B RMB	Class A RMB	Class B RMB
	(In millions, including number of shares and ADS, except for per share and per ADS data)					
Earnings per share—basic:						
Numerator						
Allocation of net income attributable to Baidu, Inc.	21,780	5,663	1,571	409	17,683	4,701
Denominator						
Weighted average ordinary shares outstanding *(Note)*	2,216	576	2,211	576	2,158	574
Denominator used for basic EPS *(Note)*	2,216	576	2,211	576	2,158	574
Earnings per share—basic *(Note)*	9.83	9.83	0.71	0.71	8.19	8.19
Earnings per share—diluted:						
Numerator						
Allocation of net income attributable to Baidu, Inc. for diluted computation	21,824	5,619	1,549	403	17,723	4,661
Reallocation of net income attributable to Baidu, Inc. as a result of conversion of Class B to Class A shares	5,619	—	403	—	4,661	—
Numerator for diluted EPS calculation	27,443	5,619	1,952	403	22,384	4,661
Denominator						
Weighted average ordinary shares outstanding *(Note)*	2,216	576	2,211	576	2,158	574
Conversion of Class B to Class A ordinary shares *(Note)*	576	—	576	—	574	—
Share-based awards *(Note)*	22	—	4	—	24	—
Denominator used for diluted EPS *(Note)*	2,814	576	2,791	576	2,756	574
Earnings per share—diluted *(Note)*	9.75	9.75	0.70	0.70	8.12	8.12
Earnings per ADS (1 ADS equals 8 Class A ordinary shares):						
Denominator used for earnings per ADS—basic *(Note)*	277		276		270	
Denominator used for earnings per ADS—diluted *(Note)*	352		349		344	
Earnings per ADS—basic *(Note)*	78.64		5.68		65.54	
Earnings per ADS—diluted *(Note)*	78.03		5.60		64.98	

Note: Basic and diluted net income per ordinary share, weighted average number of shares and the adjustments for dilutive restricted share and share options for the years ended December 31, 2018, 2019 and 2020 have been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that became effective on March 1, 2021, as detailed in Note 2.(a)

The Company did not include certain stock options, restricted shares and the effect of convertible senior notes issued by iQIYI in the computation of diluted earnings per share for the years ended December 31, 2018, 2019 and 2020 because those stock options, restricted shares and convertible senior notes were anti-dilutive for earnings per share for the respective years.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

22. SHARE-BASED AWARDS PLAN

Baidu, Inc.

2008 Share Incentive plan

In December 2008, the Company adopted a share incentive plan (the "2008 Plan"), which provides for the granting of share incentives, including incentive share options ("ISOs"), restricted shares and any other form of award pursuant to the 2008 Plan, to members of the board, employees, consultants and non-employees of the Company. The Company reserved 274,302,160 Class A ordinary shares (previously 3,428,777 Class A ordinary shares before the Share Subdivision as detailed in Note 2.(a)) for issuance under the 2008 Plan, which expired in the year 2018. The vesting schedule, time and condition to exercise options is determined by the Company's compensation committee. The term of the options may not exceed ten years from the date of the grant, except that five years is the maximum term of an ISO granted to an employee who holds more than 10% of the voting power of the Company's share capital.

Under the 2008 Plan, the exercise price of an option may be amended or adjusted at the discretion of the compensation committee, the determination of which would be final, binding and conclusive. To the extent not prohibited by applicable laws or exchange rules, a downward adjustment of the exercise prices would be effective without the approval of the Company's shareholders or the approval of the affected grantees. If the Company grants an ISO to an employee who, at the time of that grant, owns shares representing more than 10% of the voting power of all classes of the Company's share capital, the exercise price cannot be less than 110% of the fair market value of the Company's ordinary shares on the date of that grant.

2018 Share Incentive Plan

In July 2018, the Company adopted a share incentive plan (the "2018 Plan"), which provides for the granting of share incentives, including ISOs, restricted shares and any other form of award pursuant to the 2018 Plan, to members of the board, employees, consultants, and non-employees of the Company. The 2018 Plan has a ten-year term and a maximum number of 275,516,000 Class A ordinary shares (previously 3,443,950 Class A ordinary shares before the Share Subdivision as detailed in Note 2.(a)) available for issuance pursuant to all awards under the 2018 Plan.

Under the 2018 Plan, the exercise price of an option may be amended or adjusted at the discretion of the compensation committee, the determination of which would be final, binding and conclusive. To the extent not prohibited by applicable laws or exchange rules, a downward adjustment of the exercise prices would be effective without the approval of the Company's shareholders or the approval of the affected grantees. If the Company grants an ISO to an employee who, at the time of that grant, owns shares representing more than 10% of the voting power of all classes of the Company's share capital, the exercise price cannot be less than 110% of the fair market value of the Company's ordinary shares on the date of that grant.

Following the Share Subdivision that became effective on March 1, 2021 as detailed in Note 2.(a), each ordinary share was subdivided into eighty ordinary shares and each ADS represents eight ordinary shares. Prior and subsequent to March 1, 2021, one ordinary share was and will be issuable upon the vesting of one outstanding restricted share or the exercise of one outstanding share option, respectively. Therefore, following the Share Subdivision, each share option and restricted share is subdivided into eighty share options and eighty restricted shares, the weighted average grant date fair

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

22. SHARE-BASED AWARDS PLAN—continued

Baidu, Inc.—continued

2018 Share Incentive Plan—continued

value per restricted share and the weighted average exercise price per share option is diluted by eighty times. The number of restricted shares and share options, the weighted average grant date fair value per restricted share and the weighted average exercise price per share option has been retrospectively adjusted for the Share Subdivision in the following tables.

Incentive share options

The following table summarizes the option activity for the years ended December 31, 2018, 2019 and 2020:

	Number of share options *(Note)*	Weighted average exercise price (US$) *(Note)*	Weighted average remaining contractual life (Years)	Aggregate intrinsic value (US$ in millions)
Incentive share options				
Outstanding, December 31, 2017	25,231,760	22	8	186
Granted	6,812,720	22		
Exercised	(5,338,160)	20		
Forfeited/Cancelled	(8,651,600)	23		
Outstanding, December 31, 2018	18,054,720	22	7	40
Vested and expected to vest at December 31, 2018	15,344,880	21	7	38
Exercisable at December 31, 2018	**8,691,120**	**19**	**6**	**31**
Outstanding, December 31, 2018	18,054,720	22	7	40
Granted	18,492,160	12		
Exercised	(947,920)	3		
Forfeited/Cancelled	(5,744,480)	21		
Outstanding, December 31, 2019	29,854,480	17	8	72
Vested and expected to vest at December 31, 2019	23,836,480	17	8	53
Exercisable at December 31, 2019	**9,834,640**	**22**	**5**	**7**
Outstanding, December 31, 2019	29,854,480	17	8	72
Granted	1,028,240	11		
Exercised	(3,516,400)	13		
Forfeited/Cancelled	(3,147,280)	17		
Outstanding, December 31, 2020	24,219,040	17	7	245
Vested and expected to vest at December 31, 2020	19,756,080	18	7	186
Exercisable at December 31, 2020	**12,098,400**	**21**	**5**	**78**

Note: The number of share options and weighted average exercise price have been retrospectively adjusted for the Share Subdivision that became effective on March 1, 2021 as detailed in Note 2.(a) and Note 21.

The aggregate intrinsic value in the table above represents the difference between the Company's closing stock price on the last trading day in 2020 and the exercise price.

Total intrinsic value of options exercised for the years ended December 31, 2018, 2019 and 2020 was RMB474 million, RMB77 million and RMB157 million, respectively. The total fair value of options

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

22. SHARE-BASED AWARDS PLAN—continued

Baidu, Inc.—continued

Incentive share options—continued

vested during the years ended December 31, 2018, 2019 and 2020 was RMB956 million, RMB216 million and RMB261 million, respectively.

Share options are usually subject to vesting schedules ranging from two to four years. As of December 31, 2020, RMB215 million of unrecognized share-based compensation cost related to share options is expected to be recognized over a weighted-average vesting period of 1.8 years. To the extent the actual forfeiture rate is different from the original estimate, actual share-based compensation costs related to these awards may be different from expectation.

The fair value of each option award was estimated on the date of grant using the Black-Scholes-Merton valuation model. The volatility assumption was estimated based on historical volatility of the Company's share price applying the guidance provided by ASC 718. Assumptions of the expected term were based on the vesting and contractual terms and employee demographics. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The following table presents the assumptions used to estimate the fair values of the share options granted in the years presented:

	For the years ended December 31,		
	2018	2019	2020
Risk-free interest rate	2.57%	1.58%~2.49%	1.51~1.52%
Dividend yield	—	—	—
Expected volatility range	34.47%~35.36%	34.62%~35.14%	34.83%~34.92%
Expected life (in years)	4.89~6.25	5.83~6.03	5.90~6.01

In addition, the Company recognizes share-based compensation expense net of estimated forfeiture rates, to recognize compensation cost for shares expected to vest over the service period of the award. Estimated forfeiture rates are primarily based on historical experience of employee turnover. To the extent the Company revises this estimate in the future, share-based compensation expense could be materially impacted in the year of revision, as well as in the following years.

The exercise price of options granted during the years ended December 31, 2018, 2019 and 2020 equaled the market price of the ordinary shares on the grant date. The weighted-average grant-date fair value of options granted during the years ended December 31, 2018, 2019, and 2020 was US$13, US$5, and US$9, respectively.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

22. SHARE-BASED AWARDS PLAN—continued

Baidu, Inc.—continued

Restricted Shares

Restricted Shares activity for the years ended December 31, 2018, 2019, and 2020 was as follow:

	Number of restricted shares *(Note)*	Weighted average grant date fair value (US$) *(Note)*
Restricted Shares		
Unvested, December 31, 2017	65,573,600	24
Granted	34,211,360	28
Vested	(20,732,160)	24
Forfeited/Cancelled	(15,737,280)	24
Unvested, December 31, 2018	63,315,520	26
Granted	89,828,560	16
Vested	(24,049,120)	25
Forfeited/Cancelled	(15,490,640)	23
Unvested, December 31, 2019	113,604,320	19
Granted	73,900,080	14
Vested	(35,078,640)	20
Forfeited/Cancelled	(21,924,240)	17
Unvested, December 31, 2020	130,501,520	16

Note: The number of restricted shares and weighted average grant date fair value have been retrospectively adjusted for the Share Subdivision that became effective on March 1, 2021 as detailed in Note 2.(a) and Note 21.

The total fair value of the Restricted Shares vested during the years ended December 31, 2018, 2019 and 2020 was RMB3.4 billion, RMB4.1 billion, RMB4.6 billion, respectively. The weighted-average grant-date fair value of the Restricted Shares granted during the years ended December 31, 2018, 2019, and 2020 was US$28, US$16, and US$14, respectively.

As of December 31, 2020, there was RMB6.4 billion of unrecognized share-based compensation cost related to Restricted Shares, which is expected to be recognized over a weighted-average vesting period of 3.0 years. To the extent the actual forfeiture rate is different from the original estimate, the actual share-based compensation costs related to these awards may be different from expectation. To the extent the Company revises this estimate in the future, share-based compensation expense could be materially impacted in the year of revision, as well as in the following years.

Subsidiaries-iQIYI

2010 Equity Incentive Plan

In October 2010, iQIYI adopted its 2010 Equity Incentive Plan (the "iQIYI 2010 Plan"), which permits the grant of restricted shares, options and share appreciation rights to the employees, directors, officers and consultants to purchase iQIYI's ordinary shares. The 2010 Plan is valid and effective for an original term of ten years, and further extended to twenty years on September 15, 2020 commencing from its adoption. Except for service conditions, there were no other vesting conditions for all the awards under the 2010 Plan. As of December 31, 2020, the share option pool under the iQIYI 2010

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

22. SHARE-BASED AWARDS PLAN—continued

Subsidiaries-iQIYI—continued

2010 Equity Incentive Plan—continued

Plan approved by the Board of Directors of iQIYI was 589,729,714 iQIYI's ordinary shares. All options granted vest over a four-year period, with 25% of the awards vesting on the first anniversary, and the remaining 75% of the awards vesting on a quarterly basis thereafter.
The following table sets forth the summary of employee option activity under the iQIYI's 2010 Plan:

	Number of share options	Weighted average exercise price (US$)	Weighted average remaining contractual life (Years)	Aggregate intrinsic value (US$ in millions)
Outstanding, December 31, 2017	306,266,366	0.45		
Granted	112,846,527	0.51		
Forfeited	(13,474,664)	0.51		
Exercised	(25,059,198)	0.42		
Outstanding, December 31, 2018	380,579,031	0.47	9	630
Vested and expected to vest at December 31, 2018	382,422,243	0.46	7	635
Exercisable at December 31, 2018	184,247,256	0.42	6	314
Outstanding, December 31, 2018	380,579,031	0.47	9	630
Granted	94,625,573	0.51		
Forfeited	(8,855,266)	0.51		
Exercised	(59,436,720)	0.37		
Outstanding, December 31, 2019	406,912,618	0.48	7	1,031
Vested and expected to vest at December 31, 2019	385,280,004	0.48	7	977
Exercisable at December 31, 2019	211,537,760	0.45	6	542
Outstanding, December 31, 2019	406,912,618	0.48	7	1,031
Granted	88,611,584	0.51		
Forfeited	(12,111,374)	0.51		
Exercised	(62,714,554)	0.44		
Outstanding, December 31, 2020	420,698,274	0.49	7	846
Vested and expected to vest at December 31, 2020	401,055,919	0.48	7	807
Exercisable at December 31, 2020	245,054,484	0.47	7	498

As of December 31, 2020, there was RMB2.2 billion of unrecognized share-based compensation cost related to share options granted by iQIYI. That deferred cost is expected to be recognized over a weighted-average vesting period of 2.7 years.

2017 Share Incentive Plan

In November 2017, iQIYI adopted its 2017 Share Incentive Plan (the "iQIYI 2017 Plan"). Under the iQIYI 2017 Plan, iQIYI is authorized to grant options, restricted shares and restricted share units to members of the board, employees, consultants and other individuals for which the maximum aggregate number of ordinary shares which may be issued pursuant to all awards is 720,000 iQIYI's ordinary

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

22. SHARE-BASED AWARDS PLAN—continued

Subsidiaries-iQIYI—continued

2017 Share Incentive Plan—continued

shares. The iQIYI 2017 Plan is valid and effective for a term of ten years commencing from its adoption. Except for service conditions, there are no other vesting conditions for all the awards issued under the 2017 Plan. As of December 31, 2020, the unrecognized share-based compensation cost related to its Restricted Shares is insignificant.

The following table summarizes the share-based compensation cost recognized by iQIYI:

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Expensed as cost of revenues	83	171	202
Expensed as selling, general and administrative	369	676	851
Expensed as research and development	104	238	317
	556	1,085	1,370

The following table summarizes the total share-based compensation cost recognized by the Group:

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Expensed as cost of revenues	224	327	360
Expensed as selling, general and administrative	1,725	1,768	1,897
Expensed as research and development	2,727	3,531	4,471
	4,676	5,626	6,728

23. RELATED PARTY TRANSACTIONS

Related party transactions primarily related to online marketing services, cloud services and other services provided by the Company to certain investees. The following table summarizes the revenue received from major related parties in fiscal year 2018, 2019 and 2020.

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Revenues:			
Trip	774	627	204
Du Xiaoman	256	731	678
Investee C(i)	143	280	949
Others	421	1,394	1,015
Total	**1,594**	**3,032**	**2,846**

Note:

(i) Investee C is one of the Company' investees, over which the Company has significant influence.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

23. RELATED PARTY TRANSACTIONS—continued

The Group purchased produced content and licensed copyrights, traffic acquisition and other services from equity investees in an amount of RMB297 million, RMB3.0 billion and RMB1.9 billion for the years ended December 31, 2018, 2019 and 2020, respectively. Other related party transactions were insignificant for each of the years presented, which included reimbursements to Robin Li's use of an aircraft beneficially owned by his family member used for the Company's business purposes.

Except for the non-trade balances disclosed below, amounts due from/due to related parties as of December 31, 2018, 2019 and 2020 relate to transactions arising from the ordinary and usual course of business of the Group and were trade in nature.

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Amounts due from related parties, current:			
Trip[(i)]	58	96	22
Du Xiaoman[(ii)]	77	737	306
Investee A[(iii)]	325	345	—
Investee C[(iv)]	—	115	212
Other related parties[(v)]	325	301	186
Total	785	1,594	726
Amounts due from related parties, non-current:			
Du Xiaoman[(ii)]	3,884	3,391	3,398
Other related parties[(vi)]	413	173	40
Total	4,297	3,564	3,438
Amounts due to related parties, current:			
Trip[(vii)]	12	49	50
Du Xiaoman[(viii)]	934	973	489
Investee A[(ix)]	488	476	—
Investee B[(x)]	186	249	175
Other related parties[(xi)]	107	484	610
Total	1,727	2,231	1,324
Amounts due to related parties, non-current:			
Du Xiaoman[(xii)]	3,729	3,430	3,216
Investee B[(x)]	631	410	325
Other related parties[(xiii)]	—	6	2
Total	4,360	3,846	3,543

Notes:

(i) The balances mainly represent amounts arising from services the Company provided to Trip.

(ii) The balances represent non-trade long-term loans due from Du Xiaoman with interest rates ranging from 0.00% to 0.50% in 2020, and amounts arising from services the Company provided to Du Xiaoman.

(iii) The balance mainly represents a non-trade interest-bearing loan provided to Investee A, which was an equity investee as of December 31, 2019. The Company acquired Investee A on July 16, 2020, and accordingly, all corresponding outstanding balance has been eliminated in the consolidated balance sheet.

(iv) The balances mainly represent amounts arising from services including online marketing services and cloud services the Company provided to Investee C.

(v) The balances mainly represent amounts arising from services the Company provided to its investees in ordinary course of business.

(vi) The balance consists of amount due from the Company's investees in the ordinary course of business.

(vii) The balances mainly represent amounts arising from services provided by Trip.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

23. RELATED PARTY TRANSACTIONS—continued

(viii) The balance represents amount due to Du Xiaoman arising from services provided by Du Xiaoman to the Company in the ordinary course of business and non-trade loans provided by Du Xiaoman with interest rates of nil in 2020.
(ix) The balances mainly represent amounts arising from hardware products purchased from Investee A, and a non-trade interest-bearing loan provided by the Investee A, as of December 31, 2019. The Company acquired Investee A on July 16, 2020, and accordingly, all corresponding outstanding balances have been eliminated in the consolidated balance sheet.
(x) The balances mainly represent deferred revenue relating to the future services to be provided by the Company to Investee B which is an equity method investee.
(xi) The balances mainly represent amounts arising from services including advertising services and licensing of content assets provided by the Company's investees and non-trade amounts payable for acquiring the equity interest of the Company's investees.
(xii) The balances mainly represent non-trade interest-free long-term loans provided by Du Xiaoman.
(xiii) The balance represents mainly deferred revenue relating to the future services to be provided by the Company to investees.

24. SEGMENT REPORTING

The Company's operations are organized into two segments, consisting of Baidu Core and iQIYI. Within Baidu Core, the Company's product and services offerings are categorized as follows—Mobile Ecosystem, Baidu Cloud and Apollo Intelligent Driving & Other Growth Initiatives. iQIYI is an innovative market-leading online entertainment service iQIYI produces, aggregates, and distributes a wide variety of professionally produced content (PPC), as well as a broad spectrum of other video content in a variety of formats.

The Company derives the results of the segments directly from its internal management reporting system. The CODM reviews the performance of each segment based on its operating results and uses these results to evaluate the performance of, and to allocate resources to, each of the segments. Because substantially all of the Group's long-lived assets and revenues are located in and derived from the PRC, geographical segments are not presented. The Company does not allocate assets to its segments as the CODM does not evaluate the performance of segments using asset information.

The table below provides a summary of the Group's operating segment operating results for the year ended December 31, 2018.

	For the year ended December 31, 2018			
	Baidu Core	iQIYI	Intersegment eliminations & adjustments	Consolidated
	RMB	RMB	RMB (In millions)	RMB
Total revenues	**78,271**	**24,989**	**(983)**	**102,277**
Operating costs and expenses:				
Cost of revenues	25,370	27,133	(759)	51,744
Selling, general and administrative	15,310	4,168	(247)	19,231
Research and development	13,783	1,994	(5)	15,772
Total operating costs and expenses	**54,463**	**33,295**	**(1,011)**	**86,747**
Operating profit (loss)	**23,808**	**(8,306)**	**28**	**15,530**
Total other income (loss), net	**13,169**	**(676)**	**(698)**	**11,795**
Income (loss) before income taxes	**36,977**	**(8,982)**	**(670)**	**27,325**
Income taxes	4,664	79	—	4,743
Net income (loss)	**32,313**	**(9,061)**	**(670)**	**22,582**
Less: net income (loss) attributable to noncontrolling interests	(1,292)	49	(3,748)	(4,991)
Net income (loss) attributable to Baidu, Inc.	**33,605**	**(9,110)**	**3,078**	**27,573**

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

24. SEGMENT REPORTING—continued

The table below provides a summary of the Group's operating segment operating results for the year ended December 31, 2019.

	For the year ended December 31, 2019			
	Baidu Core	iQIYI	Intersegment eliminations	Consolidated
	RMB	RMB	RMB (In millions)	RMB
Total revenues	**79,711**	**28,994**	**(1,292)**	**107,413**
Operating costs and expenses:				
Cost of revenues	34,019	30,348	(1,517)	62,850
Selling, general and administrative	14,733	5,237	(60)	19,910
Research and development	15,698	2,667	(19)	18,346
Total operating costs and expenses	**64,450**	**38,252**	**(1,596)**	**101,106**
Operating profit (loss)	**15,261**	**(9,258)**	**304**	**6,307**
Total other income (loss), net	**(5,680)**	**(967)**	**—**	**(6,647)**
Income (loss) before income taxes	**9,581**	**(10,225)**	**304**	**(340)**
Income taxes	1,896	52	—	1,948
Net income (loss)	**7,685**	**(10,277)**	**304**	**(2,288)**
Less: net income (loss) attributable to noncontrolling interests	105	46	(4,496)	(4,345)
Net income (loss) attributable to Baidu, Inc.	**7,580**	**(10,323)**	**4,800**	**2,057**

The table below provides a summary of the Group's operating segment operating results for the year ended December 31, 2020.

	For the year ended December 31, 2020			
	Baidu Core	iQIYI	Intersegment eliminations	Consolidated
	RMB	RMB	RMB (In millions)	RMB
Total revenues	**78,684**	**29,707**	**(1,317)**	**107,074**
Operating costs and expenses:				
Cost of revenues	28,368	27,884	(1,094)	55,158
Selling, general and administrative	12,931	5,188	(56)	18,063
Research and development	16,847	2,676	(10)	19,513
Total operating costs and expenses	**58,146**	**35,748**	**(1,160)**	**92,734**
Operating profit (loss)	**20,538**	**(6,041)**	**(157)**	**14,340**
Total other income (loss), net	**9,693**	**(943)**	**—**	**8,750**
Income (loss) before income taxes	**30,231**	**(6,984)**	**(157)**	**23,090**
Income taxes	4,041	23	—	4,064
Net income (loss)	**26,190**	**(7,007)**	**(157)**	**19,026**
Less: net income (loss) attributable to noncontrolling interests	(334)	31	(3,143)	(3,446)
Net income (loss) attributable to Baidu, Inc.	**26,524**	**(7,038)**	**2,986**	**22,472**

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

24. SEGMENT REPORTING—continued

The following table presents the Company's revenues disaggregated by segment and by types of products or services:

	For the years ended		
	December 31, 2018	December 31, 2019	December 31, 2020
	RMB	RMB (In millions)	RMB
Online marketing services	72,645	70,038	66,283
Cloud services (*Note 1*)	3,005	6,370	9,173
Interest income earned from provision of financial services	1,724	—	—
Others (*Note 1*)	897	3,303	3,228
Baidu Core subtotal	78,271	79,711	78,684
Membership services (*Note 1*)	10,623	14,436	16,491
Online advertising services (*Note 2*)	9,329	8,271	6,822
Content distribution (*Note 1*)	2,163	2,544	2,660
Others (*Note 1*)	2,874	3,743	3,734
iQIYI subtotal	24,989	28,994	29,707
Intersegment eliminations	(983)	(1,292)	(1,317)
Total revenues	102,277	107,413	107,074

Note 1: The revenues were presented as "Others" in the consolidated statements of comprehensive income (loss)
Note 2: The revenues were presented as "Online marketing revenues" in the consolidated statements of comprehensive income (loss)

25. FAIR VALUE MEASUREMENTS

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Include observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs which are supported by little or no market activity.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Assets and Liabilities Measured or Disclosed at Fair Value on a recurring basis

In accordance with ASC 820, the Company measures equity investments with readily determinable fair value, investments accounted for at fair value, available-for-sale debt investments and derivatives

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

25. FAIR VALUE MEASUREMENTS—continued

Assets and Liabilities Measured or Disclosed at Fair Value on a recurring basis—continued

instruments at fair value on a recurring basis. The fair value of time deposits are determined based on the prevailing interest rates in the market. The fair values of the Company's held-to-maturity debt investments as disclosed are determined based on the discounted cash flow model using the discount curve of market interest rates. The fair value of the Company's short-term available-for-sale debt investments are measured using the income approach, based on quoted market interest rates of a similar instrument and other significant inputs derived from or corroborated by observable market data. The fair values of the Company's investments in equity securities of publicly listed companies are measured using quoted market prices. The fair value of derivative instruments of interest rate swaps are based on broker quotes. The fair value of financial liability is estimated based on the quoted market price of a similar asset to the underlying assets. Investments accounted for at fair value are equity investments in unlisted companies held by consolidated investment companies, these investments and long-term available-for-sale debt investments do not have readily determinable market value, which were categorized as Level 3 in the fair value hierarchy. The Company uses a combination of valuation methodologies, including market and income approaches based on the Company's best estimate, which is determined by using information including but not limited to the pricing of recent rounds of financing of the investees, future cash flow forecasts, liquidity factors and multiples of a selection of comparable companies.

The fair value of the Company's notes payable are extracted directly from their quoted market prices. The fair value of the convertible senior notes are based on broker quotes. The Company carries the convertible senior notes at face value less unamortized debt discount and issuance costs on its consolidated balance sheets and presents the fair value for disclosure purposes only.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

25. FAIR VALUE MEASUREMENTS—continued

Assets and Liabilities Measured or Disclosed at Fair Value on a recurring basis—continued

Assets and liabilities measured on a recurring basis or disclosed at fair value are summarized below:

	Total fair value at December 31, 2018	Fair value measurement or disclosure at December 31, 2018 using: Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB	RMB (In millions)	RMB	RMB
Fair value disclosure				
Cash equivalents				
Time deposits	4,264	—	4,264	—
Money market funds	3,723	3,723	—	—
Short-term investments				
Held-to-maturity debt investments	27,507	—	27,507	—
Long-term notes payable	68,763	—	68,763	—
Convertible senior notes	4,923	—	4,923	—
Fair value measurements on a recurring basis				
Short-term investments				
Available-for-sale debt investments	84,238	—	84,238	—
Long-term investments				
Equity investments at fair value with readily determinable fair value	4,428	4,428	—	—
Investments accounted for at fair value	1,457	—	—	1,457
Available-for-sale debt investments	1,167	—	—	1,167
Other non-current assets				
Derivative instruments	193	—	187	6
Total assets measured at fair value	**86,803**	**4,428**	**79,745**	**2,630**
Accounts payable and accrued liabilities				
Derivative instruments	123	—	—	123
Amounts due to related parties, non-current				
Financial liability	341	—	341	—
Total liabilities measured at fair value	**464**	**—**	**341**	**123**

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

25. FAIR VALUE MEASUREMENTS—continued

Assets and Liabilities Measured or Disclosed at Fair Value on a recurring basis—continued

		Fair value measurement or disclosure at December 31, 2019 using		
	Total fair value at December 31, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB	RMB (In millions)	RMB	RMB
Fair value disclosure				
Cash equivalents:				
Time deposits	10,848	—	10,848	—
Money market funds	1,719	1,719	—	—
Short-term investments:				
Held-to-maturity debt investments	107,654	—	107,654	—
Long-term investments:				
Held-to-maturity debt investment	491	—	491	—
Long-term notes payable	45,282	—	45,282	—
Convertible senior notes	14,142	—	14,142	—
Fair value measurements on a recurring basis				
Short-term investments:				
Available-for-sale debt investments	5,637	—	5,637	—
Long-term investments:				
Equity investments at fair value with readily determinable fair value	11,334	11,334	—	—
Investments accounted for at fair value	1,819	—	—	1,819
Available-for-sale debt investments	3,970	—	—	3,970
Other non-current assets:				
Derivative instruments	24	—	24	—
Total assets measured at fair value	**22,784**	**11,334**	**5,661**	**5,789**
Accounts payable and accrued liabilities:				
Derivative instruments	125	—	—	125
Amounts due to related parties, non–current:				
Financial liability	401	—	401	—
Total liabilities measured at fair value	**526**	**—**	**401**	**125**

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

25. FAIR VALUE MEASUREMENTS—continued

Assets and Liabilities Measured or Disclosed at Fair Value on a recurring basis—continued

		Fair value measurement or disclosure at December 31, 2020 using		
	Total fair value at December 31, 2020	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB	RMB	RMB	RMB
		(In millions)		
Fair value disclosure				
Cash equivalents:				
Time deposits	16,133	—	16,133	—
Money market funds	198	198	—	—
Short-term investments:				
Held-to-maturity debt investments	124,132	—	124,132	—
Convertible senior notes, current portion	4,967	—	4,967	—
Long-term investments:				
Held-to-maturity debt investment	9,754	—	9,754	—
Long-term notes payable	52,575	—	52,575	—
Convertible senior notes, non-current portion	12,078	—	12,078	—
Fair value measurements on a recurring basis				
Short-term investments:				
Available-for-sale debt investments	2,865	—	2,865	—
Long-term investments:				
Equity investments at fair value with readily determinable fair value	12,978	12,978	—	—
Investments accounted for at fair value	2,238	—	—	2,238
Available-for-sale debt investments	2,607	—	—	2,607
Total assets measured at fair value	**20,688**	**12,978**	**2,865**	**4,845**
Accounts payable and accrued liabilities:				
Derivative instruments	40	—	40	—
Amounts due to related parties, current:				
Financial liability	327	—	327	—
Total liabilities measured at fair value	**367**	**—**	**367**	—

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

25. FAIR VALUE MEASUREMENTS—continued

Assets and Liabilities Measured or Disclosed at Fair Value on a recurring basis—continued

Reconciliations of assets categorized within Level 3 under the fair value hierarchy are as follow:

Investments accounted for at fair value:

	Amounts
	RMB (In millions)
Balance at December 31, 2017	**321**
Additions	822
Disposals	(5)
Net unrealized fair value increase recognized in earning	293
Foreign currency translation adjustments	26
Balance at December 31, 2018	**1,457**
Additions	282
Disposals	(128)
Net unrealized fair value increase recognized in earnings	197
Foreign currency translation adjustments	11
Balance at December 31, 2019	**1,819**
Additions	371
Disposals	(63)
Net unrealized fair value increase recognized in earnings	151
Foreign currency translation adjustments	(40)
Balance at December 31, 2020	**2,238**

Available-for-sale debt investments:

	Amounts
	RMB (In millions)
Balance at December 31, 2017	—
Additions	1,167
Balance at December 31, 2018	**1,167**
Additions	2,785
Disposals	(20)
Net unrealized fair value increase recognized in other comprehensive income	91
Accrued interest	48
Impairment	(81)
Foreign currency translation adjustments	(20)
Balance at December 31, 2019	**3,970**
Additions	5
Disposals	(500)
Reclassification	412
Conversion to equity investment	(1,355)
Share of losses in excess of equity method investment in ordinary shares	(82)
Net unrealized fair value increase recognized in other comprehensive income	153
Accrued interest	68
Foreign currency translation adjustments	(64)
Balance at December 31, 2020	**2,607**

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

25. FAIR VALUE MEASUREMENTS—continued

Assets measured at fair value on a non-recurring basis

The Company measures certain non-financial assets on a nonrecurring basis

For equity securities accounted for under the measurement alternative, when there are observable price changes in orderly transactions for identical or similar investments of the same issuer, the investments are re-measured to fair value (Note 4). The non-recurring fair value measurements to the carrying amount of an investment usually requires management to estimate a price adjustment for the different rights and obligations between a similar instrument of the same issuer with an observable price change in an orderly transaction and the investment held by the Company. These non-recurring fair value measurements were measured as of the observable transaction dates. The valuation methodologies involved require management to use the observable transaction price at the transaction date and other unobservable inputs (level 3) such as expected volatility and probability of exit events as it relates to liquidation and redemption preferences. When there is impairment of equity securities accounted for under the measurement alternative and equity method investments, the non-recurring fair value measurements are measured at the date of impairment. The fair values of the Company's equity method investments in publicly listed companies are measured using quoted market prices. Estimating the fair value of investees without observable market prices is highly judgmental due to the subjectivity of the unobservable inputs (level 3) used in the valuation methodologies used to determine fair value, especially considering the increased market volatility in the global financial markets after the COVID-19 outbreak. The Company uses valuation methodologies, primarily the market approach, which requires management to use unobservable inputs (level 3) such as selection of comparable companies and multiples, expected volatility, discount for lack of marketability and probability of exit events as it relates to liquidation and redemption preferences when applicable. These unobservable inputs and resulting fair value estimates may be affected by unexpected changes in future market or economic conditions. The fair value information presented is not as of the period's end, and is sensitive to changes in the unobservable inputs used to determine fair value and such changes could result in the fair value at the reporting date to be different from the fair value presented.

Other non-financial assets, intangible assets, licensed copyrights and produced content, would be measured at fair value whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The fair values of non-financial long-lived assets were measured under income approach, based on the Company's best estimation. Significant inputs used in the income approach primarily included future estimated cash flows and discount rate.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

25. FAIR VALUE MEASUREMENTS—continued

Assets measured at fair value on a non-recurring basis—continued

The following table summarizes the Company's financial assets held as of December 31, 2018, 2019 and 2020 for which a non-recurring fair value measurement was recorded during the years ended December 31, 2018, 2019 and 2020:

	Total Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value adjustment	Impairment
	RMB	RMB	RMB (In millions)	RMB	RMB	RMB
Fair value measurements on a non-recurring basis						
As of December 31, 2018						
Long-term investments	19,739	—	4,983	14,756	3,512	(622)
Intangible assets	—	—	—	—	—	(5)
As of December 31, 2019						
Long-term investments	22,778	14,105	358	8,315	(230)	(9,989)
Intangible assets	76	—	—	76	—	(406)
As of December 31, 2020						
Long-term investments (i)	14,205	367	—	13,838	3,725	(1,862)
Intangible assets (i)	62	—	—	62	—	(350)
Mainland China film group–Licensed copyrights as of March 31, 2020 (ii)	7,186	—	—	7,186	—	(390)
Mainland China film group – Produced contents as of March 31, 2020 (ii)	4,124	—	—	4,124	—	(210)
Produced content monetized on its own (ii)	40	—	—	40	—	(205)

Notes:

(i) Due to factors such as the outbreak of coronavirus (COVID-19) resulting in declined financial performances and changes in business circumstances of certain investees, the Company recognized impairment charges of long-term investments as of March 31, 2020, June 30, 2020 and December 31, 2020. For equity securities accounted for under the measurement alternative, when there are observable price changes in orderly transactions for identical or similar investments of the same issuer, the investments are re-measured to fair value. The Company also recognized impairment loss on intangible assets as of March 31, 2020.

(ii) The outbreak of COVID-19 during the first quarter of 2020 also has resulted in a downward adjustment to forecasted advertising revenues for the Mainland China film group. As a result, the Company performed an assessment to determine whether the fair value of the Mainland China film group was less than its unamortized film costs as of March 31, 2020 with the assistance of a third-party valuation firm. The Company uses a discounted cash flow approach to estimate the fair value. The Company estimated the most likely future cash flows based on historical results, economic useful lives or license periods and perception of future performance. The Company has incorporated those cash outflows necessary to generate the cash inflows, including future production, operation, exploitation and administrative costs, which were estimated at 32%-37% of revenue in aggregate. The discount rate was determined to be the weighted average cost of capital of the Mainland China film group at 15%. As of March 31, 2020, the fair value of the Mainland China film group was less than its corresponding carrying value and resulted in the Company recognizing an impairment charge of RMB390 million related to licensed copyrights and RMB210 million related to produced content, respectively. The impairment charge was recognized as cost of revenues in the condensed consolidated statement of comprehensive income for the year ended December 31, 2020. In addition, due to adverse changes in the expected performance of certain produced content and the reduced amount of ultimate revenue expected to be recognized, an impairment charge of RMB205 million was recognized for produced content predominantly monetized on its own and was recognized as "Cost of revenues" in the consolidated statement of comprehensive income for the year ended December 31, 2020.

26. SUBSEQUENT EVENTS

Acquisition of YY Live

In November 2020, the Company entered into definitive agreements with JOYY Inc. ("JOYY"), subsequently amended in February 2021, to acquire JOYY's domestic video-based entertainment live streaming business in China ("YY Live") for total cash consideration of US$3.3 billion (equivalent to

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

26. SUBSEQUENT EVENTS—continued

Acquisition of YY Live—continued

approximately RMB21,532 million), subject to certain adjustments, as well as contingent cash consideration of up to US$300 million (equivalent to approximately RMB2.0 billion) if certain conditions are met post-acquisition. The acquisition has been substantially completed, with certain customary matters remaining to be completed in the near future.

The transaction will be accounted for as a business combination. The initial accounting for the business combination is incomplete as the Company is still in the process of measuring the fair value of the consideration transferred, identifiable intangible assets and other assets and liabilities to be recognized upon acquisition, including deferred tax liabilities. Based on information available at this time, the Company determined a preliminary purchase price allocation based on the following provisional amounts: total consideration transferred of RMB22.1 billion which is mainly allocated to intangible assets of RMB6.8 billion, deferred tax liabilities of RMB1.0 billion, and resulting provisional goodwill of RMB16.2 billion, respectively.

iQIYI 2026 Notes and follow-on public offering of ADSs

In connection with the issuance of the iQIYI 2026 Convertible Notes on December 21, 2020, an additional US$100 million of principal amount was issued on January 8, 2021 pursuant to the underwriters' exercise of their option to purchase additional notes. The net proceeds received by iQIYI for this additional issuance was US$98 million (equivalent to RMB641 million) .

In connection with iQIYI's follow-on offering on December 21, 2020, the underwriters had partially exercised their option to purchase additional ADSs of iQIYI. The net proceeds received by iQIYI for this issuance of additional Class A ordinary shares was US$78 million (equivalent to RMB510 million).

Unsecured US$ floating rate term loan and revolving loan of the Company

In February 2021, the Company entered into a non-binding term sheet for a term and revolving facility with a group of five mandated lead arrangers, bookrunners and underwriters, pursuant to which the Company plans to borrow an unsecured US$ denominated floating rate term loan of US$1.5 billion with a term of 5 years and to borrow an unsecured US$ denominated revolving loan of US$1.5 billion for 5 years. The facility is intended for the Company's general working capital use.

27. DIVIDENDS

No dividends have been paid or declared by the Company during the years ended December 31, 2018, 2019 and 2020.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, in respect of any period subsequent to December 31, 2020. Except as disclosed elsewhere in this report, no dividends or distributions have been declared or made by the Company in respect of any period subsequent to December 31, 2020.

APPENDIX II

REPRODUCTION OF THE ANNUAL FINANCIAL STATEMENTS OF THE ISSUER AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2020 AND ITS AUDITOR'S REPORT

The information set out below is a reproduction of the annual financial statements of the Issuer as at and for the year ended 31 December 2020 and its auditor's report.

SG Issuer
Société Anonyme

Financial statements,
Report of the Executive Board and Corporate Governance Statement and
Report of the Réviseur d'entreprises agréé

As at and for the year ended 31 December 2020

16, boulevard Royal
L-2449 Luxembourg
R.C.S. Luxembourg: B121.363

Table of Contents

Executive Board Members
As at 31 December 2020

EXECUTIVE BOARD MEMBERS

Chairman:

Mr Yves CACCLIN
Employee of Société Générale Luxembourg
11, avenue Emile Reuter, L-2420 Luxembourg

Members:

Mr Thierry BODSON
Employee of Société Générale Luxembourg
11, avenue Emile Reuter, L-2420 Luxembourg

Mr Alexandre GALLICHE
Employee of Société Générale Luxembourg
11, avenue Emile Reuter, L-2420 Luxembourg

Mr Pascal JACOB
Employee of Société Générale Luxembourg
11, avenue Emile Reuter, L-2420 Luxembourg

Mrs Estelle STEPHAN JASPARD
Employee of Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

Mr Laurent WEIL
Employee of Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

Mr Christian ROUSSON (since 3 April 2020)
Employee of Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

Supervisory Board Members
As at 31 December 2020

SUPERVISORY BOARD MEMBERS

Chairman:

Mr Olivier BLANC (from 11 February 2020 until 5 April 2020)*
Employee of Société Générale Luxembourg
11, avenue Emile Reuter, L-2420 Luxembourg

Mr Pierre LESCOURRET (Member since 19 March 2020 – Chairman since 6 April 2020)*
Employee of Société Générale
Basalte, 4 boulevard Franck Kupcka, F-92800 Puteaux, France

* There was no Chairman of the Supervisory Board from 27 September 2019 to 11 February 2020.

Members:

Mr Olivier BLANC (since 6 April 2020)
Employee of Société Générale Luxembourg
11, avenue Emile Reuter, L-2420 Luxembourg

Mr Gregory CLAUDY
Independent Director
225A, rue du Burgknapp, B-6717 Heinstert, Belgium

Mr Olivier FREITAS
Employee of Société Générale Luxembourg
11, avenue Emile Reuter, L-2420 Luxembourg

Mr Didier LALLEMAND (until 19 March 2020)
Employee of Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

Mr Vincent ROBILLARD
Employee of Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

Audit Committee Members
As at 31 December 2020

AUDIT COMMITTEE MEMBERS

Chairman:

Mr Gregory CLAUDY
Independent Director
225A, rue du Burgknapp, B-6717 Heinstert, Belgium

Members:

Mr Olivier FREITAS
Employee of Société Générale Luxembourg
11, avenue Emile Reuter, L-2420 Luxembourg

Mr Didier LALLEMAND (until 19 March 2020)
Employee of Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

Mr Olivier BLANC (since 6 April 2020)
Employee of Société Générale Luxembourg
11, avenue Emile Reuter, L-2420 Luxembourg

MANAGEMENT AND ADMINISTRATION

Issuer
SG Issuer
16, Bd Royal, L-2449 Luxembourg, Luxembourg

Guarantor (if applicable, as specified in the Final Terms)
Société Générale
29, boulevard Haussmann, F-75009 Paris, France

Arranger and Dealer
Société Générale
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

Security Trustee and Security Agent Trustee
The Bank of New York Mellon Corporate Trustee Services Limited
One Canada Square, London E14 5AL, United Kingdom

Collateral Custodian
The Bank of New York Mellon S.A., Luxembourg Branch
Vertigo Building, Polaris, 2-4, rue Eugène Ruppert, L-2453 Luxembourg, Luxembourg

Collateral Monitoring Agent
The Bank of New York Mellon London Branch
One Canada Square, London E14 5AL, United Kingdom

Custodian Agent, Issuing and Paying Agent, Registrar, Exchange Agent and Transfer Agent
Société Générale Luxembourg
11, avenue Emile Reuter, L-2420 Luxembourg, Luxembourg

Paying Agents
Société Générale
29, boulevard Haussmann, F-75009 Paris, France
&
Société Générale, New York Branch
1221, avenue of the Americas, New York NY 10020, United States of America

Warrant Agent
Société Générale Luxembourg
11, avenue Emile Reuter, L-2420 Luxembourg, Luxembourg

LEGAL ADVISERS AND RÉVISEUR D'ENTREPRISES AGRÉÉ

Legal advisers
To the Arranger as to English, French and U.S. laws
Allen & Overy LLP
52, avenue Hoche, CS 90005, 75379 Paris Cedex 08, France

To the Trustee as to English Law
Allen & Overy LLP
1 Bishops Square, London E1 6AD, United Kingdom

To the Arranger as to Luxembourg Law
Allen & Overy Luxembourg
5, avenue John F. Kennedy, L-1855 Luxembourg, Luxembourg

Independent Auditor (Réviseur d'entreprises agréé)
Ernst & Young S.A.
35E, Avenue John F. Kennedy, L-1855 Luxembourg, Luxembourg

REPORT OF THE EXECUTIVE BOARD AND CORPORATE GOVERNANCE STATEMENT

The Directors of SG Issuer (the "Company" or "SGIS") (each a « Director », collectively the « Executive Board ») present the financial statements and the Report of the Executive Board and Corporate Governance Statement of the Company for the year ended 31 December 2020.

1. ACTIVITIES AND REVIEW OF THE DEVELOPMENT OF THE BUSINESS

The purpose of SG Issuer is to issue Notes and Warrants with all types of underlyings including, without restriction, Shares, Index, Interest Rate, Dividend, Credit Risk, Foreign Exchange, Commodities, Funds, Warrants, allowing investors to access to the full pricing capabilities of Société Générale, which proposes an extensive range of investment strategies linked to these various asset classes.

Notes and Warrants issued by the Company can be sold in either Private Placements or Public Offerings.

Notes are mainly Debt Securities, Bonds, Certificates. Issuing Proceeds raised by the sale of the Notes are transferred to Société Générale Paris S.A. ("Société Générale") through a Fully Funded Swap ("FFS"), which perfectly hedges SGIS for the full issue size.

Warrants are financial products like Turbos, inline Warrants, daily Leverage Certificates, etc., which aim to replicate the same financial exposure as buying (Call) or selling (Put) an asset such as a share or an index, at a predetermined price (strike price) on a predetermined date (expiry) and to offer different pay-off or exposures to investors.

Warrants are distributed by Société Générale mainly to clients in France, Belgium, Luxembourg, United-Kingdom, Sweden, Finland, Norway, Spain, Hong-Kong, the Netherlands, Italy and Singapore. Issuing proceeds raised by the sale of the Warrants are transferred to Société Générale through a FFS.

Payments in respect of the Notes and Warrants issued by the Company are unconditionally and irrevocably guaranteed by Société Générale.

On request of investors, the Company can issue Collateralised Notes or Warrants ("Secured Notes" or "Secured Warrants") in order to propose an additional layer of protection to investors in case of default of Société Générale.

Notes and Warrants issuances are governed by the Base Prospectuses prepared by Société Générale.

The main programs for Notes are (i) the Debt Instruments Issuance Program, the Base Prospectus of which has been updated and approved by the CSSF on 5 June 2020 and (ii) the "Programme d'Emission de Titres de Créance", the Base Prospectus of which has been updated and approved by the CSSF on 15 June 2020. Similarly, the main program for Warrants is the Warrants Issuance Program, for which the last updates have been approved by the CSSF on 29 June 2020.
In addition, (i) the German law Dual Language Debt Instruments Issuance Programme has been approved by the CSSF on 2 July 2020 and (ii) the Dual Language Leveraged and Tracking Products Issuance Programme has been approved by the CSSF on 15 July 2020.

The state of business of the Company at the closing of the financial year is adequately presented in the financial statements published hereby.

The decrease in total assets and liabilities (before impact of the offsetting) (see Note 4) is due to the evolution of the activity of issuing financial instruments and significant changes in the fair value of the notes, induced by the Covid-19 impact on the stocks market.

During the year ended 31 December 2020, 11 902 new Notes were issued (among which 53 secured Notes) and 2 991 Warrants were issued[1].

The Company did not exercise any research and development activity, does not have any branch, and did not acquire any own shares.

2. RISKS AND UNCERTAINTIES

The risks associated with the investment in the Notes or Warrants depend on several factors. Such factors will vary depending on the characteristics of the Notes or Warrants issued, in particular depending on the underlying type, the maturity, the secured / unsecured status of the Notes or Warrants, the interest rates incurred, the volatility of the underlying.

For each Note, the Company systematically hedges its position by contracting a FFS with Société Générale, with strictly identical characteristics. Also, for each Warrant, the Company systematically hedges its position by contracting an option with Société Générale, with strictly identical characteristics.

The legal documentation and the derivative instruments have been put in place in order to make sure that the assets match the liabilities at any time. Therefore, no market risk is supported by the Company. The risk management in relation to the Notes and Warrants is also described in Note 15 hereafter.

3. COVID-19 CRISIS

The development of the Covid-19 virus into a pandemic has created an unprecedented environment both operationally and in financial markets. The lockdown measures imposed by many governments to stop the spread of virus have led to a collapse of global activity during the year 2020 : the crisis has been affecting both the supply and demand for goods and services and has led to financial market dislocations. In this context, the Company has been closely monitoring the situation and following instructions given by the World Health Organisation and the authorities in Luxembourg. The Company has put in place the necessary measures to ensure business continuity with consideration for staff and client health and safety as a priority.

Governments and central banks have tried to mitigate the effects of this shock by providing significant support in term of liquidity and credit guarantees to the economy. Strong uncertainties still remain about the consequences, magnitude and duration of the crisis.

During the year 2020, the crisis had a limited impact on the Company, considering the quality of the asset portfolio and the robustness of its balance sheet. The specific setup of the Company and the hedging of assets and liabilities contributed to fully mitigate the Company’s exposure to the market volatility. Nevertheless, the Covid-19 crisis had an impact on the volume of the activity due to the decrease in clients’ requests for this type of instruments.

---

[1] The number of issued Notes and Warrants does not take into account the issuances which have been issued and cancelled during the same financial period.

4. DECONSOLIDATION OF SGIS BY SOCIETE GENERALE LUXEMBOURG S.A.

The Company was a 100% owned subsidiary of Société Générale Luxembourg S.A. until 30 November 2020. On this date, Société Générale Luxembourg S.A. sold 100 shares to Société Générale S.A. ("SG S.A.") and renounced to its voting rights on its remaining shares. As Société Générale S.A. is the sole shareholder with voting rights, it inherits the power and control over SGIS. Consequently, Société Générale Luxembourg has lost power and control on SGIS as per IFRS 10. SGIS is thus directly consolidated by Société Générale S.A. as from 1 December 2020.

Despite Société Générale Luxembourg does not consolidate SGIS, Société Générale Luxembourg keeps a significant influence on SGIS. Société Générale Luxembourg has lost the power and control over SGIS but, based on the existing significant economic relationships, the Group's supervision and the common workforce, Société Générale Luxembourg conserves significant influence as per IAS 28.

5. FUTURE DEVELOPMENTS AND PERSPECTIVES

In the context of the acquisition by the Société Générale Group (SG Group) of the listed warrants activities from Commerz Bank, Société Générale has decided that new warrants for this activity would mostly be done by another issuer of the Group starting from 1 April 2020. As this activity represented most of the Warrants issued by SGIS so far, the Executive Board noticed a significant drop in new Warrant issuances starting from the second quarter of 2020, which represented however a slight decrease in the commission income for the Company. The Executive Board expects that the drop in Warrants issuances will continue during the year 2021.

Furthermore, 2021 will with no doubt be marked by the unprecedented macroeconomic consequences of the Covid-19 pandemic. It is expected that the financial markets environment will affect the Company's volume of Notes issued and sold to the public during the period when the outbreak continues. In such highly uncertain environment, the Company intends to continue in the coming years the development of its business.

6. SUBSEQUENT EVENTS

SG Issuer, as the Issuer of Notes linked to the credit risk of a French corporate, and Société Générale, as the Guarantor, were brought before the Courts of Paris (alongside other French financial institutions) by end investors to obtain compensation for the financial loss they suffered on their investment in these securities (16 000 KEUR for securities issued by SG Issuer and guaranteed by Société Générale). The French corporate was the subject of a "safeguard procedure", which constitutes a credit event under the terms of the Notes which had a strong impact on the value of the Notes. These investors rely on unfounded allegations according to which SG Issuer and Société Générale were aware of the difficulties of the French corporate when setting up and marketing these Notes and that in doing so, they failed to meet their regulatory obligations (to act in an honest, fair and professional manner, to provide information on the product risks and to determine the suitability of the Notes for retail investors).

For this litigation (and any other litigation relating to securities issued by SG Issuer) SG Issuer is entitled to an indemnification by Société Générale in respect of any sum due by SG Issuer in the context of this litigation regarding potential damages or attorneys' fees.

7. CORPORATE GOVERNANCE STATEMENT

The Executive Board of the Company is committed to maintaining the standards of corporate governance enforced at the level of the European Union and at level of the Société Générale Group. This statement describes the Company's governance principles and practices.

In compliance with its status, the Company is governed by an Executive Board and supervised by a dedicated Supervisory Board.

7.1 Executive Board

The Executive Board supervises and controls the Management and operations of the Company and is responsible for the Company system of risk management and internal control.

The Executive Board meetings are held on demand several times during the year.

The Board has quorum when more than half of its members are present. An opinion supported by more than half of the members present becomes a decision.

Key tasks of the Executive Board:

- Ensures that the supervision of accounting is organized and monitored appropriately;
- Reviews and approves the Company's financial statements and condensed interim financial information;
- Supervises and controls operative management.

7.2 Supervisory Board

The Supervisory Board ensures permanently and by all means suited the control of the Management of the Company carried out by the Executive Board. However, this supervision has to be translated in no way by an intervention in the Management of the Company. The Supervisory Board can mandate advisory committees comprised of members of the Supervisory Board and/or of other non-members to lead different missions. The Supervisory Board can confer these advisory committees of the power or mandates permanently or temporary. These advisory committees cannot have the effect of restricting the powers of the Executive Board.

7.3 Audit Committee

The mission of the Audit Committee is to monitor the issues related to the preparation and control of accounting and financial information, to monitor the independence of the statutory auditors, as well as to monitor the efficiency of the internal control, measurement, supervision and risk control systems related to the accounting and financial processes. If needed, it gives recommendations and its opinion to the Supervisory Board.

An Audit Committee of the Company took place on 23 April 2021, during which the financial statements for the year ended 31 December 2020 and the external audit results were presented. At least one member of the committee must be independent, which is the case of the Chairman of the Company's Audit Committee.

7.4 Internal Audit

The Internal Audit of both Société Générale Luxembourg and Société Générale support the Company's Executive Board in overseeing the Company's activities and securing its operations by carrying out internal audits and providing consultative assistance. The objective of Internal Audit is to add value by making recommendations designed to improve the Company's functioning. Internal Audit is an independent function and its activities are based on international professional internal audit standards and rules of ethics.

The central task of Internal Audit is to audit the functioning of SG Issuer on a regular basis and evaluate its internal controls, risk management, and administrative function. The areas to be audited are determined by the projected financial and operational risks concerned. Internal Audit can also carry out special assignments at the request of management.

Internal Audit does not have any direct authority over the activities it reviews.

7.5 Controls framework

First level of controls is related to the execution of the procedures, guidelines and instructions established to ensure the proper and efficient functioning of the Company. They are executed by the involved teams in charge of the production.

A second level of control is ensured by Société Générale Luxembourg : Outsourced Essential Services ("OES") supervision (ensured by the Corporate department), Market Risk and Operational Risk (ensured by the Risk department), "Level 2 permanent control" activity (monitoring and assessment of the level 1 permanent control system)."

The Chief Financial Officer of the Company ensures the completeness of the procedural framework.

7.6 New Products Committee

All the new activities and business of the Company are analysed and authorized by a dedicated New Products Committee (NPC). All involved departments within Société Générale are represented (operations, finance, risk, accounting standards, etc...) to assess the impact for the Company.

7.7 Service level agreements

The Company and several of its service providers are subsidiaries of the Société Générale Group.

Service Level Agreements ("SLAs") were signed by the Company with Société Générale Luxembourg and with Société Générale. The SLAs govern the relations between the entities as well as their respective obligations. The services supplied by Société Générale Luxembourg and Société Générale are listed in the appendices of the agreements (mainly General services, legal services, business continuity management services and financial services from Société Générale Luxembourg and operational services – Middle Office and Back Office – from Société Générale). In particular, the calculation of the remuneration related to the issuance of the Notes is delegated to Societe Generale Paris Middle Office within the framework of the SLA.

Luxembourg, 29 April 2021

For the Executive Board

Yves CACCLIN
Chairman of the Executive Board

Alexandre GALLICHE
Member of the Executive Board

GLOBAL STATEMENT FOR THE FINANCIAL STATEMENTS

To the best of our knowledge, the financial statements gives a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union, and the Report of the Executive Board (management report) includes a fair presentation of the development and performance of the business and the position of the Company, together with a description of the main risks and uncertainties that it faces.

Luxembourg, 29 April 2021

Executive Board Member
For the Executive Board

Yves CACCLIN
Chairman of the Executive Board

Alexandre GALLICHE
Member of the Executive Board

Ernst & Young
Société anonyme

35E, Avenue John F. Kennedy
L-1855 Luxembourg

Tel: +352 42 124 1

www.ey.com/en_lu

B.P. 780
L-2017 Luxembourg

R.C.S. Luxembourg B 47 771
TVA LU 16063074

Independent auditor's report

To the sole Shareholder of
SG Issuer
16, boulevard Royal
L-2449 Luxembourg

Report on the audit of the financial statements

Opinion

We have audited the financial statements of SG Issuer S.A. (the "Company"), which comprise the statement of financial position as at 31 December 2020, and the statement of profit and loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at 31 December 2020, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 on the audit profession (the "Law of 23 July 2016") and with International Standards on Auditing ("ISAs") as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier" ("CSSF"). Our responsibilities under the EU Regulation Nº 537/2014, the Law of 23 July 2016 and ISAs as adopted for Luxembourg by the CSSF are further described in the "Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements" section of our report. We are also independent of the Company in accordance with the International Code of Ethics for Professional Accountants, including International Independence Standards, issued by the International Ethics Standards Board for Accountants ("IESBA Code") as adopted for Luxembourg by the CSSF together with the ethical requirements that are relevant to our audit of the financial statements, and have fulfilled our other ethical responsibilities under those ethical requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Hedging of financial instruments issued

Description

The activity of the Company consists in issuing Notes and Warrants, which are subscribed by investors. These financial instruments are fully hedged with mirror transactions concluded with Société Générale S.A. replicating the financial instruments issued by the Company (see Note 4).

We have considered the hedging of financial instruments issued to be a key audit matter considering the financial risk which would result from inadequate hedging of the financial instruments issued by the Company.

How the matter was addressed in our audit

We tested the key controls implemented by the Company in relation with the issuance of financial instruments and the conclusion of mirror transactions with Société Générale S.A., as well as the key controls on the stock of financial instruments to ensure the effectiveness of the hedging.

We verified the intercompany reconciliation process between the Company and Société Générale S.A., and the intercompany reconciliations performed as at 31 December 2020.

For a sample of financial instruments issued by the Company as at 31 December 2020, we verified that the Company has contracted the mirror financial instruments with Société Générale S.A..

Also, we inquired about the existence of operational errors during the year and, if applicable, the related financial impact.

Other information

The Executive Board is responsible for the other information. The other information comprises the information included in the report of the Executive Board and Corporate Governance Statement but does not include the financial statements and our report of “réviseur d’entreprises agréé” thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report this fact. We have nothing to report in this regard.

Building a better working world

Responsibilities of the Executive Board for the financial statements

The Executive Board is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS as adopted by the European Union, and for such internal control as the Executive Board determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Executive Board is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Executive Board either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Responsibilities of the "réviseur d'entreprises agréé" for the audit of the financial statements

The objectives of our audit are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue a report of the "réviseur d'entreprises agréé" that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with the ISAs as adopted for Luxembourg by the CSSF will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with EU Regulation N° 537/2014, the Law of 23 July 2016 and with ISAs as adopted for Luxembourg by the CSSF, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Executive Board.
- Conclude on the appropriateness of Executive Executive Board use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report of the "réviseur d'entreprises agréé" to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our report of the "réviseur d'entreprises agréé". However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate to them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our report unless law or regulation precludes public disclosure about the matter.

Report on other legal and regulatory requirements

We have been appointed as “réviseur d’entreprises agréé” by the General Meeting of the Shareholders on 30 April 2020 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 4 years.

The report of the Executive Board is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

The corporate governance statement, included in the report of the Executive Board, is the responsibility of the Executive Board. The information required by article 68ter paragraph (1) letters c) and d) of the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended, is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

We confirm that the prohibited non-audit services referred to in EU Regulation No 537/2014 were not provided and that we remained independent of the Company in conducting the audit.

Ernst & Young
Société anonyme
Cabinet de révision agréé

Charles Dequaire

Luxembourg, 29 April 2021

Statement of Financial Position
As at 31 December 2020

	Notes	('000 EUR) 2020	('000 EUR) 2019
Cash and cash equivalents	3	44 293	65 975
Financial assets at fair value through profit or loss			
- *Mandatorily measured at fair value through profit or loss*	4.1	43 135 651	52 893 265
- *Trading derivatives*	4.1	674 352	5 786 274
Loans and receivables	5	49 902	51 660
Other assets	6	835 571	430 988
Total assets		**44 739 769**	**59 228 162**
Financial liabilities at amortised cost	4.3	65 342	83 669
Financial liabilities at fair value through profit or loss			
- *Designated at fair value through profit or loss*	4.2	43 146 652	52 889 867
- *Trading derivatives*	4.2, 10, 14	676 965	5 788 693
Other liabilities	6	848 336	463 523
Tax liabilities	7	75	62
Total liabilities		**44 737 370**	**59 225 814**
Share capital	8.1	2 000	2 000
Share premium		-	-
Legal reserve	8.2	200	200
Profit for the financial year		199	148
Total equity		**2 399**	**2 348**
Total liabilities and equity		**44 739 769**	**59 228 162**

The accompanying Notes are an integral part of these financial statements.

Statement of Profit and Loss and Other Comprehensive Income

For the year ended 31 December 2020

	Notes	('000 EUR) 2020	('000 EUR) 2019
Interest income	9	917	1 023
Commission income	10	48 748	52 679
Other income	11	-	14 384
Total revenues		**49 665**	**68 086**
Interest expenses	9	(18 409)	(36 624)
Net loss from financial instruments at fair value through profit or loss		(139)	(727)
Personnel expenses	12	(273)	(411)
Other operating expenses	13	(30 569)	(30 114)
Cost of risk	5	(1)	-
Total expenses		**(49 391)**	**(67 876)**
Profit before tax		**274**	**210**
Income tax	7	(75)	(62)
Profit for the financial year		**199**	**148**
Total comprehensive income for the financial year		**199**	**148**

The accompanying Notes are an integral part of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2020

	(‘000 EUR) Share capital	(‘000 EUR) Share premium	(‘000 EUR) *Legal reserve*	(‘000 EUR) *Other unavailable reserves*	(‘000 EUR) *Other available reserves*	(‘000 EUR) Total reserves	(‘000 EUR) Profit for the financial year	(‘000 EUR) Total equity
As at 31 December 2018	**2 000**	**25 000**	*200*	-	*1 662*	**1 862**	**187**	**29 049**
Transfer to available reserves	-	-	-	-	-	**-**	**-**	**-**
Allocation of the result of the previous year before dividend distribution	-	-	-	-	*187*	**187**	**(187)**	**-**
Dividend to the sole shareholder	--	-	-	-	*(1 849)*	**(1 849)**	**-**	**(1 849)**
Capital increase/Allocation to the share premium account (Note 8.1)	-	31 605	-	-	-	**-**	**-**	**31 605**
Reimbursement of the share premium (Note 8.1)	-	(56 605)	-	-	-	**-**	**-**	**(56 605)**
Profit for the financial year 2019	-	-	-	-	**-**	**-**	**148**	**148**
As at 31 December 2019	**2 000**	**-**	*200*	-	-	**200**	**148**	**2 348**
Transfer to available reserves								
Allocation of the result of the previous year before dividend distribution	-	-	-	-	*148*	**148**	**(148)**	**-**
Dividend to the sole shareholder	-	-	-	-	*(148)*	**(148)**	**-**	**(148)**
Capital increase/Allocation to the share premium account (Note 8.1)	-	34 981	-	-	-	**-**	**-**	**34 981**
Reimbursement of the share premium (Note 8.1)	-	(34 981)	-	-	-	**-**	**-**	**(34 981)**
Profit for the financial year 2020	-	-	-	-	-	**-**	**199**	**199**
As at 31 December 2020	**2 000**	**-**	*200*	-	-	**200**	**199**	**2 399**

The accompanying Notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2020

	Notes	('000 EUR) 2020	('000 EUR) 2019 *Restated**
OPERATING ACTIVITIES			
Profit for the financial year		199	148
Net(increase)/decrease in financial assets	4.1	(3 866 206)	11 650 759
Net increase/(decrease) in financial liabilities	4.2	3 899 072	(11 626 283)
(Increase)/decrease in other assets	6	(404 583)	(260 399)
Increase/(decrease) in tax liabilities and other liabilities	6, 7	384 750	279 831
Taxes paid	7	75	62
Non cash adjustments :			
Net change in fair value and foreign exchange difference	4.1, 4.2	139	727
Change in cost of risk	5	1	-
NET CASH FLOWS FROM OPERATING ACTIVITIES		**13 446**	**44 845**
FINANCING ACTIVITIES			
Payment of capital surplus**	8.1	(34 981)	(56 605)
Dividend paid		(148)	(1 849)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		**(35 129)**	**(58 454)**
Cash and cash equivalents as at January 1st	3	65 975	79 584
Net increase/(decrease) in cash and cash equivalents		(21 682)	(13 609)
Cash and cash equivalents as at December 31st		**44 293**	**65 975**
Additional information on operational cash flows from interest and dividends			
Interest paid		35 775	57 428
Interest received	9	917	1 023
Dividend received		-	-

** Refer to Note 2.5 - comparative data.*

*** KEUR 34 981 for the year ended 31 December 2020 (and KEUR 56 605 for the year ended 31 December 2019) represent the share premium reimbursed by the Company to the shareholder (refer to Note 8.1).*

The accompanying Notes are an integral part of these financial statements.

NOTE 1 – CORPORATE INFORMATION

SG Issuer (hereafter the "Company" or “SGIS”) is a Luxembourg company incorporated on 16 November 2006 as a public limited company (“Société Anonyme”.) for an unlimited period.

Since April 2013, the Company’s corporate objects are to issue debt securities, bonds, certificates, warrants and any other debt securities or acknowledgements of debts or financial securities, whether or not accompanied by guarantees, with any type of underlying security, including, without limitation, company stock, any other capital security or security other than capital, index, currency, exchange rate, interest rate, dividend, credit risk, fund unit, investment company stock, term deposit, life assurance contract, loan, merchandise, term contract, option, Warrant or option coupons, allocated or unallocated precious metals, unit of account, basket or any other factor or any other type of underlying securities and any combination of the latter.

To that effect, the Company may purchase, hold, dispose of, lend, loan or resell, by any means, including in particular the use of trusts, in trust or repurchase, any type of assets whatever their names and forms and whether or not accompanied by guarantees, in particular financial instruments (financial securities - stocks, fund units, bonds, certificates, Warrants - or financial contracts - swaps, options or other) or any other debt securities, acknowledgements of debts or capital securities, receive or issue monetary loans (including loans convertible into shares of the Company) - within the group of companies to which the Company belongs - and to supply guarantees in any form (actual guarantees such as pledges, securities, mortgages or other - personal guarantees or any other form of guarantee) for their own account, for the account of the group of companies to which the Company belongs or on behalf of third parties.

The Company’s financial year begins on 1 January and ends on 31 December each year.

The Company’s capital was 100% owned by Société Générale Luxembourg S.A. until 30 November 2020. At this date, Société Générale Luxembourg S.A. sold 100 shares to Société Générale S.A. and renounced to its voting rights on its remaining shares. SG Luxembourg S.A. inherits the power and control over SGIS. Consequently, Société Générale Luxembourg has lost power and control on SGIS as per IFRS 10.SGIS is thus directly consolidated by SG S.A. from 1 December 2020.

The accounts of the Company are included in the consolidated accounts of Société Générale S.A. (hereafter ”Société Générale” or the “parent Company”), which is the largest body of undertakings of which the Company forms a part as a subsidiary undertaking, and whose head-office is located at 29, boulevard Haussmann, 75009 Paris, France.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

2.1.1 Statement of compliance

The financial statements of the Company as at and for the year ended 31 December 2020 have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union and interpretations adopted by the International Accounting Standards Board ("IASB").

The financial statements as at and for the year ended 31 December 2020 were authorised for issue by the Supervisory Board on 28 April 2021.

2.1.2 Functional and presentation currency

The financial statements are prepared in Euro ("EUR"), which is the Company's functional currency and the currency of its share capital. Unless stated otherwise, the amounts in the financial statements are expressed in thousands of EUR (KEUR). The value "0" indicates the presence of a number, which is rounded to zero, while ”-" represents the value nil.

2.1.3 Use of estimates and judgments

The preparation of the Company's financial statements requires Executive Board to make judgments, estimates and assumptions that affect the reported amount of figures recorded in the statement of profit and loss, on the unrealised or deferred gains and losses, on the valuation of assets and liabilities in the statement of financial position, and on information disclosed in the notes to the financial statements.

In order to make these assumptions and estimates, the Executive Board uses information available at the date of preparation of the financial statements and can exercise its judgment. By nature, valuations based on estimates include risks and uncertainties relating to their occurrence in the future. Consequently, actual future results may differ from these estimates and may then have a significant impact on the financial statements.

Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods. In the process of applying the Company's accounting policies, Executive Board has made the following judgments and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond Company's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognized in the financial statements with substantial Executive Board judgment and/or estimates are listed below with respect to judgments/estimates involved.

The use of significant estimates and judgment mainly concerns the following topics:

- Fair value in the statement of financial position of financial instruments not quoted in an active market which are classified as financial assets and liabilities at fair value through profit or loss (see Notes 4.1 and 4.2);
- The amount of impairment and provisions for credit risk related to financial assets measured at amortized cost (see Note 4.3);
- The analysis of the contractual cash flow characteristics of financial assets (see Note 2.3.3.1).

2.1.4 Segment reporting

No dedicated management reporting information is presented for SGIS to a chief decision maker; only the annual financial statements are presented to the Executive Board of SGIS in analysing the performance of the Company. The company has only one geographical area related to its revenue, which is France.

2.2 New accounting standards

2.2.1 New accounting standards applied by the Company as at 1 January 2020

Amendments to IFRS 3 "Business Combinations" (Note 2.2.1.1)
Amendments to IAS 1 and IAS 8 "Definition of materiality" (Note 2.2.1.2)
Amendments to IFRS 7, IAS 39 and IFRS 9 in the context of the interest rate benchmark reform ("IBOR Reform") (Note 2.2.1.3)
First application of the revised conceptual framework for financial reporting (the revised "Conceptual Framework") (Note 2.2.1.4).
Amendments to IFRS 16 "Lease contract" due to the Covid-19 crisis (Note 2.2.1.5)

2.2.1.1 Amendments to IFRS 3 "Business Combinations"

Issued by the IASB on 22 October 2018 and adopted by the European Union on 29 November 2019.
The amendments are intended to provide clearer guidance to facilitate the differentiation between the acquisition of a business and the acquisition of a group of assets, for which the accounting treatment is different. This amendment to IFRS 3 standard is not applicable to the Company, as the acquisition of business is not part of its usual activity and it did not proceed to any acquisition in the previous periods.

2.2.1.2 Amendments to IAS 1 and IAS 8 "Definition of materiality"

Issued by the IASB on 31 October 2018 and adopted by the European Union on 29 November 2019.

These amendments are intended to clarify the definition of 'materiality' in order to facilitate the judgment in the context of the preparation of financial statements and interim financial information, particularly when selecting the information to be presented in the Notes.

The Company assessed the potential impact of this clarification. No impact on the financial statements as at 31 December 2020 was observed.

2.2.1.3 Amendments to IFRS 7, IAS 39 and IFRS 9 in the context of the interest rate benchmark reform ("IBOR Reform")

Issued by the IASB on 27 August 2020 and adopted by the European Union on 14 January 2021.

In the context of the interest rate reform – or IBOR reform – currently being implemented by SG Group, the accounting standards applicable have been amended by the IASB. The project structure is set-up at the level of SG Group, with specific application of the changes by business line.

The objective of the first amendments, implemented by the Group since 31 December 2019, is to enable the continued application of hedge accounting treatments despite uncertainties regarding the timetable and specificities regarding the transition from current interest rate benchmarks to new ones; and to do so despite any possible changes to financial instruments indexed on the current interest rate benchmarks. These amendments have no impact on the Company's financial statements considering it doesn't use hedge accounting.

Supplementary amendments have been introduced by the IASB regarding the treatment of the changes in financial instruments contracts in the framework of the IBOR reform. Adopted by the European Union on 14 January 2021, they were early applied at the level of SG Group in its financial statements as at 31 December 2020 and by extension at the level of the Company.

These supplementary amendments provide for the application of the following treatments:

- changes brought about by the IBOR reform in the determination of the contractual cash flows, when performed on an economically equivalent basis, should be booked as a revision of the variable interest rate when measuring financial assets and liabilities at amortised cost, financial assets at fair value through other comprehensive income and lease liabilities;
- continuation of the hedging relationship when changes are made, in the framework of the IBOR reform, on the hedged item and/or the hedging instrument and leading to a new documentation of the hedge .

The Company has assessed no impact of the IBOR reform further to the early adoption of the above amendments.

2.2.1.4 First application of the revised conceptual framework for financial reporting (the revised "Conceptual Framework")

Issued by IASB on 29 March 2018 and adopted by the European Union on 6 December 2019.

The Conceptual Framework sets out a comprehensive set of concepts for financial reporting, standard setting, guidance for preparers in developing consistent accounting policies and assistance to others in their efforts to understand and interpret the standards.
The changes to the Conceptual Framework affect the application of IFRS in situations where no standard applies to a particular transaction or event.
The revised Conceptual Framework is effective for the Company as it develops accounting policies based on the Conceptual Framework, it is effective in the financial statements as at 31 December 2020.
To date, the Company has not identified any impact on the application of IFRS due to the revised Conceptual Framework.

2.2.1.5 Amendments to IFRS 16 "Lease contract" due to the COVID-19 crisis

Issued by the IASB on 28 May 2020 – Adopted by the European Union on 12 October 2020

These amendments are to allow, as an option, tenants benefiting from rent relief in the context of the Covid-19 pandemic, not to analyse whether the concessions granted to them should be accounted for as modifications to rental contracts. This would imply spreading out the effects of the advantage granted over the term of the contract in profit or loss, they can recognise these reductions as negative variable rents (generating an immediate gain in profit or loss). The amendment specifies that the lessees electing to apply the exemption should apply it retrospectively in accordance with IAS 8 but are not required to restate priori period figures.
SGIS has only one lease agreement related to the building. Since the term of this agreement is 2 years and the annual rental fees amount to KEUR 23, leases are considered non material.
The Company did not benefit from any rent relief following the Covid-19 crisis in 2020.

2.2.2 Accounting standards, amendments or interpretations to be applied by the Company in the future

IASB publishes accounting standards, amendments and interpretations, some of which have not been adopted by the European Union as at 31 December 2020. They are required to be applied from annual periods beginning on 1 January 2021 at the earliest or on the date of their adoption by the European Union. They were therefore not applied by the Company as at 31 December 2020.

These standards are expected to be applied according to the following schedule:

2022

- Amendments to IFRS 3 (Reference to the Conceptual Framework)
- Amendments to IAS 37 "Provisions, contingent liabilities and contingent assets" - Onerous contracts - contract execution costs
- Annual IFRS Improvement (2018 - 2020 Cycle)
- Amendments to IAS 16 "Property, Plant and Equipment" - Proceeds before intended use

2023

- Amendments to IAS 1 "Classification of liabilities as current or non-current"
- IFRS 17 « Insurance contracts »

2.2.2.1 Amendments to IFRS 3 (Reference to the Conceptual Framework

Published by the IASB on 14 May 2020

After its meeting on 30 January 2020, the IASB finalised the amendments to IFRS 3 and decided to require an entity to apply the amendments to business combinations for which acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2022.

The IASB published Reference to the Conceptual Framework (Amendments to IFRS 3) with amendments to IFRS 3, Business Combinations that update an outdated reference in IFRS 3 without significantly changing its requirements.

At this stage, the Company does not expect any significant impact from these amendments.

2.2.2.2 Amendments to IAS 37 “Provisions, contingent liabilities and contingent assets” – Onerous contracts – Contract execution costs

Published by the IASB in May 2020

These amendments specify the costs to be used in determining the costs of performing a contract when analyzing onerous contracts. These amendments will be effective on or after the beginning of the first annual reporting period beginning on or after 1 January 2022.

At this stage, the Company does not expect any significant impact from these amendments.

2.2.2.3 Annual IFRS Improvements (2018 – 2020 Cycle)

Published by IASB on 14 May 2020

As part of the annual procedure for improving IFRS, the IASB published minor changes to IFRS 9 “Financial instruments”” and IFRS 16 “Leases”. The IASB also published minor changes to IFRS 1 “First time adoption of International Financial Reporting Standards” and IAS 41 “Agriculture”, which is not applicable to the Company.

The amendment on IFRS 9 “Financial instruments” clarifies which fees an entity includes when performing the “10 per cent” test to assess whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.

The Company will integrate this new guidances in its accounting policy. At this stage, the Company does not expect any significant impact from these amendments.

The amendment to IFRS 16 clarifies the treatment of lease incentives related to reimbursement of leasehold improvements by the lessor. The amendment only relates to an illustrative example and as such will not result in any impact for the Company.

2.2.2.4 Amendments to IAS 16 "Property, Plant and Equipment" – Proceeds before intended use

Published by IASB on 14 May 2020

The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Such sales proceeds or related costs realised during the preparation of the asset for its intended use should be recognised in profit or loss.

As the Company has no property, plant and equipment, the Company does not expect any impact from these amendments.

2.2.2.5 Amendments to IAS 1 "Classification of liabilities as current or non current"

Published by IASB on 23 January 2020

On 23 January 2020, the International Accounting Standards Board (IASB) issued amendments to IAS 1 Presentation of Financial Statements to clarify the requirements for classifying liabilities as current or non-current. More specifically:

- The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.
- Management expectations about events after the balance sheet date, for example on whether a covenant will be breached, or whether early settlement will take place, are not relevant.
- The amendments clarify the situations that are considered settlement of a liability.

The new guidance will be effective for annual periods starting on or after 1 January 2022.

On 15 July 2020, the IASB issued Classification of Liabilities as Current or Non-current — Deferral of Effective Date (Amendment to IAS 1) deferring the effective date of the January 2020 amendments to IAS 1 for annual reporting periods beginning on or after 1 January 2023.

At this stage, the Company does not expect any significant impact from these amendments.

.

2.2.2.6 IFRS 17 "Insurance Contracts"

Issued by the IASB on 18 May 2017, amended on 25 June 2020

This new standard will replace IFRS 4 "Insurance Contracts" that was issued in 2004 and which currently allows entities to use national requirements for the accounting of insurance contracts.

IFRS 17 provides new rules for the recognition, measurement, presentation and disclosure of insurance contracts that belong to its application scope (insurance contracts issued, reinsurance contracts held and investment contracts issued with discretionary participation features). The underwriting reserves currently recognised among liabilities in the statement of financial position is replaced by a current value measurement of insurance contracts.

The Company expects no effect from this standard as it has no insurance contracts.

2.3 Summary of significant accounting policies

2.3.1 Foreign currency transactions

Transactions in foreign currencies are initially recorded in EUR at the exchange rate ruling at the date of the transaction.

Assets and liabilities denominated in foreign currencies are translated into EUR at the exchange rates ruling at the reporting date. Foreign exchange differences arising on translation and realized exchange gains and losses are recognised in the statement of profit and loss and other comprehensive income in the caption *"Net gains from financial instruments at fair value through profit or loss"* and *"Interest Expenses"*.

The most important foreign currency positions for the Company are USD, JPY, GBP, HKD and CHF. The following foreign exchange rates were used:

	USD	JPY	GBP	HKD	CHF
31.12.2020	1.2271	126.4900	0.8990	9.5142	1.0802
31.12.2019	1.1234	121.9400	0.8508	8.7473	1.0854

2.3.2 Cash and cash equivalents

Cash and cash equivalents comprise only cash repayable on demand.

Cash and cash equivalents in the Company are subject to impairment under IFRS 9 and are presented net of impairment (cf. Note 2.3.3.3).

2.3.3 Financial instruments

2.3.3.1. Classification of financial instruments

Classification of financial assets

Financial assets are classified under IFRS 9 based on the characteristics of their contractual cash flows and on how they are managed (business models).

For the debt instruments held, SGIS has defined its business model as "held to collect" for the Fully Funded Swaps, for Cash and cash equivalents and for Loans and receivables. These assets are acquired in order to collect the contractual cash-flows attached to the assets. No sale has been made in the past years and no sale is anticipated in the future.

The Fully Funded Swaps (hereafter "FFS") are economically assimilated to loans with embedded derivatives (the swap embedded in the FFS). This type of financial assets comply with the IFRS definition of debt instruments (fixed maturity, coupon calculated as a rate, no right nor interest/control in an entity). As these financial assets of SGIS contain embedded derivatives that modify the cash flows of the entire contract, the contract does not pass the Solely Payments of Principles and Interest (or "SPPI") test and consequently these financial assets are mandatorily measured at Fair Value through Profit and Loss ("FVTPL").

Cash and cash equivalents and Loans and receivables are SPPI compliant and are thus measured at amortised cost. Cash and cash equivalents and Loans and receivables are subject to impairment under IFRS 9 and are presented net of impairment.

The Options held, covering the Warrants issued, are Trading derivatives and thus measured at FVTPL.

Purchases and sales of financial assets recorded under Financial assets at fair value through profit or loss and Financial assets at fair value through other comprehensive income are recognised in the statement of financial position at the delivery-settlement date. Changes in fair value between the trade and settlement dates are recorded in the income statement or booked to shareholders' equity depending on the accounting category of the relevant financial assets. Loans and receivables are recorded in statement of financial position on the date they are paid or at the maturity date for invoiced services. The trade date is the date on which the contractual commitment becomes binding and irrevocable for the Company.

Classification of financial liabilities

Financial liabilities are classified into one of the following two categories:

- Financial liabilities at fair value through profit or loss:

These are financial liabilities held for trading purposes, which by default include derivative financial liabilities not qualifying as hedging instruments and non-derivative financial liabilities designated by the Company upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option.

The Company has designated at fair value through profit or loss the notes issued because mirror transactions (Fully Funded Swaps or "FFS") that are used to hedge those notes are measured mandatorily at fair value through profit and loss and thus reduce the accounting mismatch;

- Financial liabilities at amortised cost:

These include the other non-derivative financial liabilities and are measured at amortized cost.

2.3.3.2. Valuation of financial instruments

Definition of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

In the absence of observable prices for identical assets or liabilities, the fair value of financial instruments is determined using another measurement technique that maximises the use of observable market input based on assumptions that market operators would use to set the price of the instrument in question.

Fair value hierarchy

The fair values of financial instruments include accrued interest as applicable.

For information purposes, in the notes to the financial statements, the fair value of financial instruments is classified using a fair value hierarchy that reflects the significance of the inputs used according to the following levels:

Level 1 (L1): instruments valued on the basis of quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 1 instruments carried at fair value on the statement of financial position include in particular shares listed in an active market, government or corporate bonds priced directly by external brokers/dealers, derivatives traded on organised markets (futures, options), and units of funds (including UCITS) whose net asset value is available on the statement of financial position date.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and if they reflect actual and regular market transactions on an arm's length basis.

Determining whether a market is inactive requires the use of indicators such as a sharp decline in trading volume and the level of activity in the market, a sharp disparity in prices over time and among the various above-mentioned market participants, or the fact that the latest transactions conducted on an arm's length basis did not take place recently enough.

Where a financial instrument is traded in several markets to which the Company has immediate access, its fair value is represented by the market price at which volumes and activity levels are highest for the instrument in question.

Transactions resulting from involuntary liquidations or distressed sales are usually not taken into account to determine the market price.

Level 2 (L2): instruments valued using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

These are instruments measured using a financial model based on observable market inputs. Prices published by an external source derived from the valuation of similar instruments are considered as data derived from prices.

Level 2 instruments include in particular non derivative financial instruments carried at fair value on the statement of financial position that are not directly quoted or do not have a quoted price on a sufficiently active market (e.g. corporate bonds, repos transactions, mortgage-backed securities, units of funds), and firm derivatives and options traded over-the-counter: interest rate swaps, caps, floors, swaptions, equity options, index options, foreign exchange options, commodity options and credit derivatives. The maturities of these instruments are linked to ranges of terms commonly traded in the market, and the instruments themselves can be simple or offer a more complex remuneration profile (e.g. barrier options, products with multiple underlying instruments), with said complexity remaining limited however. The valuation techniques used in this category are based on common methods shared by the main market participants.

Level 3 (L3): instruments valued using inputs that are not based on observable market data (referred to as unobservable inputs)

Level 3 instruments carried at fair value on the statement of financial position are predominantly instruments for which the sales margin is not immediately recognized in profit or loss.

Accordingly, Level 3 financial instruments include derivatives with longer maturities than those usually traded and/or with specifically-tailored return profiles. Similarly, debt measured at fair value is classified as Level 3 where the valuation of the associated embedded derivatives is also based on unobservable inputs.

The main L3 complex derivatives are:

- Equity derivatives: options with long maturities and/or incorporating bespoke remuneration mechanisms. These instruments are sensitive to market inputs (volatility, dividend rates, correlations, etc.). In the absence of market depth and an objective approach made possible by regularly observed prices, their valuation is based on proprietary methods (e.g. extrapolation from observable data, historical analysis). Hybrid equity instruments (i.e. having at least one non-equity underlying instrument) are also classified as L3 insofar as correlations between the different underlyings are generally unobservable;
- Interest rate derivatives: long-term and/or exotic options, products sensitive to correlation between different interest rates, different exchange rates, or between interest rates and exchange rates, for example for quanto products (in which the instrument is settled in a currency different from the currency of the underlying); they are liable to be classified as L3 because the valuation inputs are unobservable due to the liquidity of the correlated pair and the residual maturity of the transactions (e.g. exchange rate correlations are deemed unobservable for the USD/JPY);

- Credit derivatives: L3 credit derivatives mainly include baskets of instruments exposed to time to default correlation ("N to default" products in which the buyer of the hedge is compensated as of the Nth default, which are exposed to the credit quality of the issuers comprising the basket and to their correlation, or CDO Bespoke products, which are Collateralised Debt Obligations created specifically for a group of investors and structured according to their needs), as well as products subject to credit spread volatility;
- Commodity derivatives: this category includes products involving unobservable volatility or correlation inputs (i.e. options on commodity swaps or instruments based on baskets of underlyings).

At the level of SG Group, valuation models are determined in order to fully embed the impact of IFRS 13 as described above and use appropriate parameters and methodologies in order to determine L3 instruments valuation. Counterparty credit risk estimates relies on Credit Value Adjustments (CVA) and Debit Value Adjustments (DVA) calculations.

Different calculation methods can exist regarding the CVA-DVA / OCA (Own Credit Adjustment) impact calculation: derived from the yield discounting methodology, other from the Monte-Carlo EPE/ENE (Expected Positive / Negative Exposure). The methodology for calculation of CVA-DVA (OCA not applicable to the Company) applied to SGIS (the same as the SG Group) is the yield discounting methodology.
The valuation methods used by the Company to establish the fair value of financial instruments are detailed below.

The fair values of financial instruments include accrued interest as applicable.

- For Unsecured Notes and Fully Funded Swaps

The fair value for both the unsecured Notes (liabilities) and the Fully Funded Swap (FFS) (assets) is calculated by discounting the expected future cash flows with the risk free curve. To take the credit adjustment into account, the risk free curve is adjusted with Société Générale Group's credit spread curve. A dedicated process has been implemented using Société Générale Group and SGIS operational teams' input. This process is fully functional, constantly monitored as of today.

- For Secured and Repack Notes

Secured Notes are Notes which are collateralized with assets deposited on segregated or pooled accounts with external custodian (The Bank of New York Mellon S.A., Luxembourg Branch, hereafter "BNY Mellon Luxembourg") and pledged in favor of the Note holders.

Repack Notes are Notes which allow investors to calibrate the funding yield of their structure by selecting a bond (the "Reference Bond") issued by a third-party issuer (the "Reference Bond Issuer").

The collateral assets are composed of eligible securities.

Should Société Générale defaults, the pledge on the assets is to be enforced; the Notes holders are exposed to credit risk of the collateral (external securities). Therefore, as Société Générale and SGIS are mere risk pass-through, the credit risk premium (external bonds issuers) shall not be adjusted with Société Générale credit spread. Thus, no additional credit adjustment is needed for the secured Notes.

The fair value of the Secured Notes and the Repack Notes and the associated FFS is computed, for each accounting period, by discounting the expected future cash flows by a composite Repo rate curve.

- For Warrants and Options

For financial instruments recognised at fair value in the statement of financial position, fair value is determined primarily on the basis of the prices quoted in an active market. These prices can be adjusted if none are available on the statement of financial position date or if the clearing value does not reflect transaction prices.

However, due especially to the varied characteristics of financial instruments traded over-the-counter on the financial markets, a large number of financial products traded by the Company does not have quoted prices in the markets.

The base models may not fully capture all factors relevant to the valuation of SGIS on these financial instruments such as credit risk (CVA), own credit (DVA) and/or funding costs (FVA). Therefore, SGIS applies various techniques (from the Group) to estimate the credit risk associated with its financial instruments measured at fair value.

The reevaluation differences attributable to the Company’s credit risk are thus determined using valuation models which take into account the most recent financing terms and conditions on the markets along with the residual maturity of the related liabilities.

- For secured notes issued by the Company, as investors are not exposed to the Company’s risk, no own credit risk should impact the fair value of the instruments and as such, no adjustment has to be calculated.
- For unsecured notes, investors are not contractually exposed to the Company’s credit risk but to Société Générale Group's own credit risk.

SGIS valuation models therefore reflects the absence of credit risk, and structured bonds are not impacted by Own Credit Adjustments within the entity.

Deferred margin related to main unobservable inputs

The Company does not apply deferred margin related to its main unobservable inputs as margin on Notes and Warrants issued are offset by a similar margin on Fully Funded Swaps and Options purchased.

2.3.3.3. Impairments and provisions

Some financial assets involve credit risk which exposes the Company to a potential loss if the counterparties were to be unable to respect their financial commitments. The Company is remunerated for bearing this risk by a portion of the contractual interest that it receives on those assets; this is known as the credit margin.
This potential loss, or expected credit loss, is recognised in profit or loss without waiting for the occurrence of a default event on a specific counterparty.

For loans and receivables measured at amortised cost or fair value through other comprehensive income, the expected credit loss, as assessed by the Company, is recognised in profit or loss. On the statement of financial position, this potential loss is recognised as an impairment that reduces the carrying amount of assets measured at amortised cost. Impairments are written-back in case of a subsequent decrease of credit risk. No impairment is recognised on cash and cash equivalents. The Company does not have loan commitments or financial guarantees contracts.

Impairment and provisions for credit risk

To determine the amount of impairment or loss allowances to be recorded at each reporting date, these exposures are classified into one of three categories based on the increase in credit risk observed since initial recognition. An impairment or loss allowance shall be recognised for the exposures in each category as follows:

- Exposures classified in Stage 1: At the initial recognition date, the exposures are systematically classified in Stage 1, unless they are underperforming/credit-impaired on acquisition. Stage 1 exposures are impaired for the amount of credit losses that the Company expects to incur within 12 months (12-month expected credit losses), based on past data and the current situation.
- Exposures classified in Stage 2: To identify Stage 2 exposures, the significant increase in credit risk is assessed by the Company, taking into account the counterparty’s credit risk rating, the magnitude of the change in the counterparty’s credit rating and the existence of payments of more than 30 days.
- Exposures classified in Stage 3 (doubtful outstandings): The Company determines whether or not there is objective evidence of impairment (default event).

Stage 2 and 3 exposures are impaired for the amount of credit losses that the Company expects to incur over the life of the exposures (lifetime expected credit losses), taking into consideration past data, the present situation and reasonable forecast changes in economic conditions, and relevant macroeconomic factors through to maturity.

Impairments / Reversal of impairments

Impairments / Reversal of impairments includes net reversals of impairment and loss allowances for credit risk, losses on irrecoverable loans and amounts recovered on amortised receivables.

2.3.3.4. Offsetting financial assets and financial liabilities

A financial asset and a financial liability are offset and the net amount presented on the statement of financial position when the Company has a legally enforceable right to set off the recognised amounts and intends either to settle the asset and liability on a net basis, or to realise the asset and settle the liability simultaneously. The legal right to set off the recognised amounts must be enforceable in all circumstances, in both the normal course of business and in the event of default of one of the counterparties.

The financial instruments issued by the Company are subscribed by the investors through Société Générale as a lead manager during the issuance period and as a market maker for a secondary market. The instruments which are unsold are held by SG.

The treatment is applied based on IAS 32 paragraph 42: “A financial asset and a financial liability shall be offset and the net amount presented in the statement of financial position when, and only when, an entity:

- (currently has a legally enforceable right to set off the recognized amounts; and
- intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.”

In December 2014, a cash netting clause was added in the legal framework with Société Générale Personne Morale and the Company consequently acquired a legally enforceable right to offset the recognized amount with the same counterparty (Société Générale). The assets (the Fully Funded Swaps) and the liabilities (the Notes) are settled (and intended to be settled) simultaneously.

In June 2017, the Company added a new cash netting clause in the legal framework with Société Générale Personne Morale and the Company consequently acquired a legally enforceable right to offset the recognized amount with the same counterparty (Société Générale). The assets (OTC Options) and the liabilities (the Warrants) are settled (and intended to be settled) simultaneously.

In application of IAS 32 - Offsetting a financial asset and a financial liability, the Company proceeds to the accounting netting of the non-sold amounts. The impact of the off-setting for the non-sold Notes and the corresponding Fully Funded Swaps and impact of the off-setting for the non-sold Warrants and the corresponding options are described in Note 4.1 and Note 4.2.

2.3.4 Other assets and other liabilities

Settlement accounts for trades are included in other assets or other liabilities and are presented separately in distinctive captions on assets or liabilities side (cf. Note 6).

2.3.5 Shareholders’ equity

Equity are the resources contributed to the Company by external shareholders as capital, as well as the cumulative and undistributed results (retained earnings).

The statement “Changes in Shareholders’ Equity” presents the various changes that affect the components of equity over the reporting period.

2.3.6 Interest income and expense

Interest is recognized as expense or income over the life of the financing service granted or received, proportionally to the principal amount outstanding.

Interest income and expense are recorded in the statement of profit and loss under Interest and similar income and Interest and similar expense for all financial instruments measured using the effective interest method (instruments at amortised cost and debt instruments at fair value through other comprehensive income).

The effective interest rate is taken to be the rate used to net discount future cash inflows and outflows over the expected life of the instrument in order to establish the net book value of the financial asset or liability. The calculation of this rate considers the future cash flows estimated on the basis of the contractual provisions of the financial instrument without taking account of possible future credit losses and also includes commissions paid or received between the parties where these may be assimilated to interest, directly linked transaction costs, and all types of premiums and discounts.

Where a financial asset is classified in Stage 3 for impairment, subsequent interest income is measured at the effective interest rate applied to the net carrying amount of the financial asset with an offsetting entry equal to the outstanding financial asset before impairment.

2.3.7 Fee income and expense

Fee income and Fee expense combine fees on services rendered and received, as well as fees on pledge security granted that cannot be assimilated to interest. Fees that can be assimilated to interest are integrated into the effective interest rate on the associated financial instrument and are recorded under Interest income and Interest expenses.

The Company recognizes fee income or expense for an amount equivalent to the remuneration for the service provided and depending on the progress transferring control of these services:

- fees for ongoing services, such as custody fees and administration costs are recognized as income over the life of the service;
- fees for one-off services, such as issuance and listing fees are recognized as income when the service is provided.

The possible mismatch between the payment date of the service provided and the date of execution of the service gives assets and liabilities depending on the type of contract and mismatch which are recognized under Other Assets and Other Liabilities. For exemple : supplier contracts generate trade payables, accrued expenses or prepaid expenses.

Income related to the issuance of Notes and Warrants falls under the scope of IFRS 15 and as such, is considered separately as income generated by 2 services when the Company performs its activities:

- The issuing fee recognized upfront for the initiation and the structuration of the issuance;
- Account and security servicing during the lifecycle of the security.

2.3.8 Other operating expenses

The Company records operating expenses according to the type of services to which they refer.

Other operating expenses mainly include lease payments, building maintenance and other costs, travel and business expenses, outsourcing and advisory fees and marketing and advertising expenses. Detail is provided in Note 13.

2.3.9 Income tax

Income tax includes current taxes and deferred taxes:

- current taxes correspond to the amount of taxes due (or refundable) as calculated according to the taxable profit base for the reporting period.
- deferred taxes correspond to the amount of taxes resulting from past transactions and that will be payable (or refundable) in a future reporting period.

2.3.9.1. Current tax

Current tax is based on the taxable profit and determined in accordance with the rules established by the local taxation authorities, upon which income taxes are payable. This tax expense also includes net allowances for tax adjustments pertaining to income tax.

Tax credits arising in respect of interest from loans and income from securities are recorded in the relevant interest account as they are applied in settlement of income taxes for the year. The related tax charge is included under Income tax in the statement of profit and loss.

2.3.9.2. Deferred tax

Deferred taxes are recognized whenever the Company identifies a temporary difference between the accounting base and tax base for assets and liabilities that will affect future tax payments or from tax loss carried forward.

The amount is based on the tax rate enacted or substantively enacted which is expected to apply when the asset is realized or the liability settled. These deferred taxes are adjusted in the event of changes to tax rates. This amount is not discounted to present value. The Company off-sets its deferred tax assets against liabilities as there is both legal right to offset its current tax assets and liabilities and it is the Company's intention to settle on a net basis.

2.3.10. Other commitments linked to secured notes

In relation to each Serie of Secured Notes, in order to secure its obligations in respect of such Notes, the Company enters into a pledge agreement which will be governed by the Luxembourg act dated 5 August 2005 on financial collateral arrangements, as amended. Under each Pledge Agreement, the Company will grant first ranking security over the Collateral Assets contained in one or more accounts held by the Company with BNY Mellon Luxembourg (or such other custodian or account bank as is specified in the applicable Final Terms, pursuant to the terms of a custodian agreement between, inter alia, the Company and the collateral custodian). The security granted under each Pledge Agreement will be granted either in favour of:

- in the case of English Law Notes, The Bank of New York Mellon Corporate Trustee Services Limited or such other security trustee as is specified in the applicable Final Terms as security trustee on behalf of itself and the relevant Noteholders and the other relevant Secured Parties (as defined in the Additional Terms and Conditions for Secured Notes) or,

- in the case of French Law Notes, directly in favour of the relevant Noteholders and the other relevant Secured Parties as represented by The Bank of New York Mellon Corporate Trustee Services Limited or such other security agent as is specified in the applicable Final Terms as security agent.

Following the occurrence of a Secured Note Acceleration Event (as defined in the Additional Terms and Conditions for Secured Notes), all Noteholders whose Notes have become immediately due and payable will first be entitled to claim for any outstanding amounts due to them under the terms of the Guarantee. If neither the Issuer nor the Guarantor (pursuant to the terms of the Guarantee) has paid all amounts due to Noteholders within a period of 3 Business Days following the occurrence of a Secured Note Acceleration Event, Noteholders may send a notice in writing to the Security Trustee (in the case of English Law Notes) or the Security Agent (in the case of French Law Notes) requesting that the relevant Pledge Agreement be enforced in accordance with the terms of the Base Prospectus.

The Company borrows the securities to be pledged from Société Générale Group. In accordance with IFRS 9, the borrowing of the securities to be pledged by the Company is not assimilated to the transfer of assets and thus does not result in recognition in the statement of financial position. The risks and rewards associated to the securities remain in Société Générale Group and as such are not presented in the Company's statement of financial position.

The pledged securities are accounted as an off balance-sheet commitment "Securities pledged". The committed amount is re-measured at each closing to reflect the value of the securities pledged.

2.4 Prior years corrections of error

During Q4 2019, SG Issuer identified that, in 2019 as well as in prior years, Société Générale had paid to SG Issuer a remuneration in excess of the contractually agreed remuneration due to an error in using the right notes' maturities when applying the contractually agreed remuneration formula. However, such undue remuneration had no impact on any remuneration due to investors in SG Issuer's notes and warrants at any time.

Société Générale confirmed in a letter addressed to SG Issuer on 15 April 2020 and duly signed by both parties that it had decided to waive any reimbursement claim from SG Issuer related to such undue remuneration whenever paid.

Therefore, this operational incident had no impact on SG Issuer net result and shareholders' equity.

The economic nature of this excess remuneration being different from the contractual remuneration, the excess remuneration was recorded in "Other income" for the year ended 31 December 2019 and was presented as such in the financial statements as of 31 December 2019 (please also refer to Notes 10 and 11).

This excess remuneration paid by Société Générale to SG Issuer amounted to KEUR 14 384 for the year ended 31 December 2019.

2.5 Comparative data

The presentation of the statement of cash flows was slightly changed in 2020 in order to clarify some of its components ("Taxes paid" as well as fair value and foreign exchange difference are now presented separately).

In the statement of cashflows, the comparative data for the year ended 31 December 2019 have been restated for comparison purposes. The restatements have no impact on the subtotals and total disclosed in the statement of cash flows.

2.6 Brexit

The United Kingdom organised on 23 June 2016 a referendum at which a majority of British people voted to leave the European Union (Brexit).

After having been postponed several times, the United Kingdom withdrawal agreement entered into force on 31 January 2020 with transition period which ended on 31 December 2020. The law of Europe-an union has also ceased to apply to the United Kingdom since 1 January 2021.

Despite the unfavourable health and political context, the negotiations conducted between the Unit Kingdom and the European Union resulted on 24 December 2020 in a Trade and cooperation agreement excluding financial services. To date, there is merely a European equivalence for the use of Clearing Houses for an 18-month period from 1 January 2021.

The impacts on the Company's operations have been analysed, and they mainly relate to transactions in GBP, as a result the Company had very limited impacts due to Brexit. The Company continues to follow the ongoing negotiations and has taken into account the short-/mid-/long-term consequences of the Brexit in the assumptions and estimates selected to prepare the consolidated accounts.

2.7 Covid-19 crisis

The Covid-19 pandemic is causing unprecedented health crisis and economic shock. The lockdown measures imposed by many governments to stop the spread of virus have led to a collapse of global activity during the first half of 2020: the crisis has been affecting both the supply and demand for goods and services and has led to financial market dislocations.

Governments and central banks have tried to mitigate the effects of this shock by providing significant support in term of liquidity and credit guarantees to the economy. Strong uncertainties remain about the consequences, magnitude and duration of the crisis. In this context, Société Générale Group has defined new potential scenarios of economic recovery and analysed their effects on its activities in order to integrate them into the assumptions and estimates used for preparing the financial statements.

In conjunction with the numerous publications of regulatory authorities and of the IASB, Société Générale Group has also introduced some adjustments and taken into account Governments support measures in the methodology used for the application of measurement principles regarding expected credit losses.

SGIS policy is to rely on the methodological framework defined by the Société Générale Group. Therefore, SGIS adopted a similar approach to Société Générale Group for the adjustments related to Governments support measures due to the fact is generally operates in similar countries and environments and also relies on its parent Group's modelizations for macroeconomic scenarios and analysis of activities.

Covid-19 consequences are detailed below to shed light on the financial consequences of the crisis and on their implementation in the preparation of the financial statements, as recommended by the market and accounting authorities.

Covid-19 impact on Market Risk

Following the Covid-19 outbreak, we noted as explained above a significant change in fair value of financial liabilities. Given the specific setup of SGIS, the notes are fully backed, meaning that the change in fair value of SGIS notes is fully reflected on asset side. Due to these hedging arrangements, there can be no impact on the statement of profit and loss.

Consequently, on the market risk ground, the Covid-19 situation did not have any impact. The absence of profit or loss on issuing GOPs ("Groupe Opérationnel", securities portfolio) is still monitored on a daily basis ensuring that no profit or loss remain on GOPs.

Covid-19 impact on Expected Credit Loss

Both the Statement of financial position and the off-balance sheet of SGIS are largely out of scope as regards Expected Credit Loss (ECL) calculation. Financial assets (Fully Funded Swaps) and options held are measured at Fair Value through Profit or Loss ("FVTPL") as described in note 2.3.3.1 (classification of financial instrument).

Only a minor part of the statement of financial position is measured at amortized cost and thus subject to impairment in accordance with IFRS 9, corresponding essentially as at 31 December 2020 to term deposits with Société Générale Luxembourg, which represent the reinvestment of the Company's share capital, reserves and other available funds. The amount of expected credit loss calculated on loans and receivables in accordance with IFRS 9 amounts to KEUR 4 as at 31 December 2020 (31 December 2019: KEUR 3).

Covid-19 support measures

Given its specific activities, SGIS does not deal directly with clients, does not grant loans and its only counterpart is SG or Société Générale Group entities. Therefore, SGIS suffer today no impact in terms of potential downgrade in credit risk rating or in terms of granted moratorium and no specific measures has been put in place due to Covid-19 crisis regarding credit risk nor operational risk.

NOTE 3 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents amount to KEUR 44 293 as at 31 December 2020 (31 December 2019: KEUR 65 975) and are mainly composed of cash held with Société Générale Luxembourg and Société Générale.

As of 31 December 2020 and 2019, this caption only contained cash that was repayable on demand.

NOTE 4 – FINANCIAL INSTRUMENTS

4.1 Financial assets measured at fair value through profit or loss

	31.12.2020 ('000 EUR)	**31.12.2019 ('000 EUR)**
Financial assets at fair value through profit or loss		
- Mandatorily at fair value through profit or loss (Fully Funded Swaps)	43 135 651	52 893 265
- Trading derivatives (Options)	674 352	5 786 274
Total	**43 810 003**	**58 679 539**

As at 31 December 2020, financial assets mandatorily at fair value through profit or loss (Fully Funded Swaps) amount to KEUR 43 135 651 (31 December 2019: KEUR 52 893 265) and replicate all the Notes issued by the Company (see Note 4.2). Differences between the fair value of Fully Funded Swaps and Notes arise due to late settlements.

As at 31 December 2020, Trading derivatives (Options) amount to KEUR 674 352 (31 December 2019: KEUR 5 786 274) and replicate all the Warrants issued by the Company (see Note 4.2). Differences between the fair value of Options and Warrants arise due to late settlements.

As at 31 December 2020, the impact of the offsetting of financial assets and financial liabilities (decrease in the balance sheet) is KEUR 43 040 180 for the non-sold Notes and the corresponding Fully Funded Swaps (31 December 2019: KEUR 30 038 519) and KEUR 9 324 545 for the non-sold Warrants and the corresponding Options (31 December 2019: KEUR 6 692 028) (see Note 4.2).

The movements in financial assets at fair value through profit or loss were as follows:

	('000 EUR) Mandatorily at fair value through profit or loss	('000 EUR) Trading derivatives	('000 EUR) Total
As at 1 January 2020	**52 893 265**	**5 786 274**	**58 679 539**
Acquisition	24 577 807	43 734 538	68 312 345
Maturity/Disposal/Liquidation/Cancellation	(15 955 857)	(48 488 524)	(64 444 381)
Change in fair value and foreign exchange difference	(5 377 903)	2 274 582	(3 103 321)
Offsetting of Assets and Liabilities (Change)	(13 001 661)	(2 632 518)	(15 634 179)
As at 31 December 2020	**43 135 651**	**674 352**	**43 810 003**

	('000 EUR) Mandatorily at fair value through profit or loss	('000 EUR) Trading derivatives	('000 EUR) Total
As at 1 January 2019	**45 062 134**	**4 168 362**	**49 230 496**
Acquisition	72 576 576	40 408 628	112 985 204
Maturity/Disposal/Liquidation/Cancellation	(86 760 549)	(37 874 504)	(124 635 053)
Change in fair value and foreign exchange difference	11 266 997	494 774	11 761 771
Offsetting of Assets and Liabilities (Change)	10 748 107	(1 410 986)	9 337 121
As at 31 December 2019	**52 893 265**	**5 786 274**	**58 679 539**

4.2 Financial liabilities measured at fair value through profit or loss

	31.12.2020 ('000 EUR)	31.12.2019 ('000 EUR)
Financial liabilities at fair value through profit or loss		
- Designated at fair value through profit or loss (Notes)	43 146 652	52 889 867
- Trading derivatives (Warrants)	676 965	5 788 693
Total	**43 823 617**	**58 678 560**

As at 31 December 2020, the Company has issued secured and unsecured Notes for a total amount of KEUR 43 146 652 (31 December 2019: KEUR 52 889 867):

- 25 095 unsecured Notes were issued (stock) for a total amount of KEUR 37 165 082 (31 December 2019: 31 999 unsecured Notes were issued (stock) for a total amount of KEUR 48 347 725);
- 613 secured Notes were issued (stock) for a total amount of KEUR 5 981 570 (31 December 2019: 846 secured Notes were issued (stock) for a total amount of KEUR 4 542 142).

In addition to the guarantee on first demand granted by Société Générale on unsecured and secured Notes, subscribers of the secured Notes issued by the Company benefit from additional collateral assets securing the payment due under the Notes terms, structured in form of a pledge governed by Luxembourg Law. This pledge may only be enforced following a default of the Company or Société Générale in its role of Guarantor.

Pledged collateral assets are deposited on an account held in the name of the Company with an authorised custodian not belonging to the Société Générale Group and are pledged in favour of the Notes holders.

As at 31 December 2020, securities deposited at BNY Mellon Luxembourg as collateral for secured issuances amount to KEUR 3 924 732 (31 December 2019: KEUR 4 468 186).

As at 31 December 2020, the Company also issued Warrants for a total amount of KEUR 676 965 (31 December 2019: KEUR 5 788 693). Refer to Note 14 for further details on Off-balance sheet items related to the Warrants activity.

As at 31 December 2020, the impact of the offsetting (decrease in the balance sheet) is KEUR 43 040 180 for the non-sold Notes and the corresponding Fully Funded Swaps (31 December 2019: KEUR 30 038 519) and KEUR 9 324 545 for the non-sold Warrants and the corresponding Options (31 December 2019: KEUR 6 692 028) (see Note 4.1).

The movements in financial liabilities at fair value through profit or loss were as follows:

	('000 EUR) Designated at fair value through profit or loss	('000 EUR) Trading derivatives	('000 EUR) Total
As at 1 January 2020	**52 889 867**	**5 788 693**	**58 678 560**
Acquisition	24 671 673	43 256 910	67 928 583
Cancelled/Liquidation/Maturity Disposal	(16 034 970)	(48 011 195)	(64 046 165)
Change in fair value and foreign exchange difference	(5 378 257)	2 275 075	(3 103 182)
Offsetting of Assets and Liabilities (Change)	(13 001 661)	(2 632 518)	(15 634 179)
As at 31 December 2020	**43 146 652**	**676 965**	**43 823 617**

	('000 EUR) Designated at fair value through profit or loss	('000 EUR) Trading derivatives	('000 EUR) Total
As at 1 January 2019	**45 053 728**	**4 170 486**	**49 224 214**
Acquisition	73 253 218	39 985 252	113 238 470
Cancelled/Liquidation/Maturity Disposal	(87 579 976)	(37 303 767)	(124 883 743)
Change in fair value and foreign exchange difference	11 414 790	347 708	11 762 498
Offsetting of Assets and Liabilities (Change)	10 748 107	(1 410 987)	9 337 120
As at 31 December 2019	**52 889 867**	**5 788 693**	**58 678 560**

4.3 Financial liabilities measured at amortised cost

As at 31 December 2020 and 2019, financial liabilities at amortised cost are mainly composed of a convertible bond of KEUR 48 000, issued by the Company and fully subscribed by Société Générale Luxembourg, with maturity in 2022. Conversion may occur each year.

On this convertible bond, the Company pays to Société Générale Luxembourg both variable interests calculated on Euribor 3M plus a margin of 2.05% (total rate of 1.505% as at 31 December 2020) and activity related interests. Activity related interests means an amount equal to 100% of the activity related profit generated by the Company.

The convertible bond maturity shall be automatically extended by successive periods of one year, unless either the Issuer or the Holder has exercised its right to terminate the bond on the scheduled maturity date. The conversion option belongs to the Holder.

As at 31 December 2020, the Company also has amounts due to banks related to the Company's overdrafts current accounts for KEUR 406 (31 December 2019: KEUR 681).

NOTE 5 – LOANS AND RECEIVABLES

As at 31 December 2020 and 2019, loans and receivables only consist in deposits with Société Générale Luxembourg, which represent the reinvestment of the Company's share capital, reserves and other available funds.

The amount of expected credit loss calculated on loans and receivables in accordance with IFRS 9 is KEUR 4 as at 31 December 2020 (31 December 2019: KEUR 3).

NOTE 6 – OTHER ASSETS AND OTHER LIABILITIES

As at 31 December 2020 and 2019, other assets and other liabilities are mainly composed of settlement accounts, as presented below:

	('000 EUR) 31.12.2020	**('000 EUR) 31.12.2019**
Settlement accounts on securities transactions	788 415	372 987
Miscellaneous receivables	47 156	58 001
Total other assets	**835 571**	**430 988**

	('000 EUR) 31.12.2020	**('000 EUR) 31.12.2019**
Settlement accounts on securities transactions	(774 392)	(392 183)
Deferred income	(7 198)	(7 605)
Miscellaneous payables	(66 746)	(63 735)
Total other liabilities	**(848 336)**	**(463 523)**

Miscellaneous payables and receivables mainly consist of payables on partly paid Notes and receivables on financial instruments replicating the partly paid Notes issued.

NOTE 7 – TAXATION

The Company is liable for all taxes applicable to Luxembourg commercial companies.

Since 2007, the Company has been part of a tax integration group led by SG Luxembourg, as authorised by the article 164 bis LIR and has concluded a Tax Sharing Agreement (the "Agreement") with SG Luxembourg. Under the Agreement, the Company pays to SG Luxembourg, with respect to each financial year, an amount equal to the tax which would be levied on the profits of the Company in the absence of any tax consolidation with the Parent.

The rate of current tax applied as of 31 December 2020 is 24.94 % (31 December 2019: 24.94%). The current tax rate includes the corporate tax and the municipal tax.

For the year ended 31 December 2020, tax expenses amount to KEUR 75 (31 December 2019: KEUR 62).

NOTE 8 – SHAREHOLDERS' EQUITY

8.1 Share capital and share premium

As at 31 December 2019, the subscribed and fully paid share capital, 100% held by SG Luxembourg, was EUR 2 000 240, divided into 50 006 shares with nominal value of EUR 40 each.

By resolution adopted on 15 January 2020, the Executive Board decided to increase the authorized capital of the Company from EUR 2 000 240 to EUR 2 000 280 by the issue of a new share with a nominal value of EUR 40, subscribed by the sole shareholder. In the context of the capital increase, the 2019 activity related interests amounting to EUR 34 981 050 have been allocated to the Share Premium. This Share premium has been paid to Société Générale Luxembourg in June 2020.

On 30 November 2020, 100 shares were sold by Société Générale Luxembourg S.A. to Société Générale S.A. for a total amount of EUR 4 000. Société Générale Luxembourg S.A. still holds 49 907 shares amounting to EUR 1 996 280 for which it waived its entire voting rights.

The Company manages its capital to ensure it will be able to continue as a going concern. The capital amount may be increased, subject to the approval of the Shareholders, if the Company's activity evolves, incurring specific additional risks.

8.2 Reserves

8.2.1 Legal reserve

In accordance with the Luxembourg law, the Company is required to allocate a minimum of 5% of its annual net profit to a Legal reserve until this reserve equals 10% of the subscribed share capital. This reserve may not be distributed.

As at 31 December 2020 and 2019, the legal reserve amounts to KEUR 200.

8.2.2 Other reserves

Since 2013, the Company is fiscally integrated in its parent company Société Générale Luxembourg. Société Générale Luxembourg constitutes the Net Wealth Tax reserve for the Company. As a consequence, no additional Net Wealth Tax reserve has been constituted by the Company since 2013.

As at 31 December 2020 and 2019, the amount of other reserves is nil.

NOTE 9 – INTEREST INCOME AND EXPENSES

	('000 EUR) 31.12.2020	**('000 EUR) 31.12.2019**
Interest income on cash and cash equivalents	21	74
Interest income on loans and receivables	896	949
Total interest income	**917**	**1 023**
Interest expenses on financial liabilities at amortised cost (note 4.3)	(18 409)	(36 624)
Total interest expenses	**(18 409)**	**(36 624)**
Net interest margin	**(17 492)**	**(35 601)**

Notes to the financial statements
As at 31 December 2020

NOTE 10 – COMMISSION INCOME

Commission income can be broken down as follows:

	('000 EUR) 31.12.2020	**('000 EUR) 31.12.2019**
Issuing upfront fees on Notes	37 407	45 436
Servicing fees on Notes	7 009	2 951
Commission on Warrants	4 332	4 292
Commission income	**48 748**	**52 679**

As at 31 December 2020, KEUR 7 198 are retained as deferred income under the caption "other liabilities" (2019 : KEUR 7 605) (cf. Note 6).

NOTE 11 – OTHER INCOME

As explained in Note 2.4, Other income included an excess remuneration of KEUR 14 384 for the year ended 31 December 2019.

NOTE 12 – PERSONNEL EXPENSES

	('000 EUR) 31.12.2020	**('000 EUR) 31.12.2019**
Wages and salaries	(212)	(333)
Social charges and associated costs	(44)	(63)
Recharge of personnel expenses from related parties	(17)	(15)
Total	**(273)**	**(411)**

The Company had 3 full-time equivalent during the year ended 31 December 2020 (2019: 3).

The annual cost of pension is calculated and invoiced by Société Générale Luxembourg, based on SG Luxembourg's group total cost of pensions and according to the number of the Company's full time equivalent employees.

NOTE 13 – OTHER OPERATING EXPENSES

	('000 EUR) **31.12.2020**	**('000 EUR)** **31.12.2019**
Issuance fees	(26 146)	(26 556)
Other operating charges	(4 423)	(3 558)
Total	**(30 569)**	**(30 114)**

Issues fees mainly consist of listing fees, collateral monitoring agent fees, maintenance of registers fees and trading fees.

Other operating charges are mainly composed of operating costs related to the Company (including audit fees) as well as activities outsourced to Société Générale S.A. and Société Générale Luxembourg.

Remuneration of the Réviseur d'entreprises agréé

The fees paid by the Company to its Réviseur d'entreprises agréé were as follows:

	('000 EUR) **31.12.2020**	**('000 EUR)** **31.12.2019**
Statutory audit of the financial statements	245	241
Other assurance services	40	40
Total	**285**	**281**

NOTE 14 – OFF-BALANCE SHEET

As at 31 December 2020, financial instruments to be issued (engagement taken before 31 December 2020 with value date after 31 December 2020) amount to KEUR 2 498 866 (31 December 2019: KEUR 2 836 408).

All the Warrants issued are fully hedged by concluding identically equipped OTC options with Société Générale.

Notes to the financial statements
As at 31 December 2020

Warrants issuance summary

The Warrants issued as at 31 December 2020 and 2019 break down as follows:

				31 December 2020			31 December 2019		
Warrant Type	**Category of Underlying**	**Type of Underlying**	**Option Type**	**Quantity**	**Notional ('000 EUR)**	**Fair Value ('000 EUR)**	**Quantity**	**Notional ('000 EUR)**	**Fair Value ('000 EUR)**
Basket warrant	Basket	Index	Call	1	11 409	12 299	1	12 462	14 432
Commodity Future Warrant	Future	Mutual Fund	Put	10	37 801	142	24	35 591	6 048
		Commodity Future	Call	6	13 251	3	76	637 284	42 969
			Put	12	19 777	10 734	74	176 905	25 045
Commodity Warrant	Commodity	Bruts	Call	6	436 509	0			
		Index	Call	1	500	309	9	40 197	19 188
		Mutual Fund	Call	17	25 860	0	136	904 041	130 055
			Put	58	96 407	111	83	154 736	10 222
		Precious metals	Call	4	9 333	0	11	22 469	5 626
			Put	10	22 906	0	11	26 439	126
		Future Contract	Call	1	124 275	3 572	1	-	57 440
Currency Warrant	Currency	Currency	Call	60	18 978	45	9 155	88 621	41 196
			Put	85	270 190	0	4 152	417 838	305 098
Equity Warrant	Equity	American Depositary Receipt	Call	4	21 681	330	63	202 059	9 155
			Put	1	417	2	36	60 612	4 152
		Mutual Fund	Call	2	77 778	3	6	139 725	960
		Ordinary Share	Call	1 534	21 602 883	209 139	4 397	27 304 462	1 045 517
			Put	814	6 622 179	(11 836)	3 217	10 749 863	522 589
		Own Share	Call	12	36 680	161	67	103 867	12 856
			Put	5	3 719	129	42	52 041	8 039
		Preference	Call	6	12 621	137	29	61 705	2 846
			Put	4	6 453	0	19	31 784	822

Notes to the financial statements

As at 31 December 2020

Warrant Type	Category of Underlying	Type of Underlying	Option Type	31 December 2020 Quantity	31 December 2020 Notional ('000 EUR)	31 December 2020 Fair Value ('000 EUR)	31 December 2019 Quantity	31 December 2019 Notional ('000 EUR)	31 December 2019 Fair Value ('000 EUR)
Real Estate Investment Trust	REIT	REIT	Call	10	94 519	82	47	140 612	6 483
			Put	2	1 233	42	40	87 700	2 315
Index Warrant	Index	Index	Call	802	29 010 394	481 932	2 169	53 295 928	3 009 616
			Put	384	7 525 299	(59 540)	1 319	25 762 353	471 170
Fund Warrant	Fund	Mutual Fund	Call	175	1 115 036	26 814	228	1 467 868	34 668
			Put	-	-	-	6	118 816	60
		Fund	Call	1	10 000	2 355	-	-	-
Total Call				**2 642**	**52 621 707**	**737 182**	**16 395**	**84 421 300**	**4 433 007**
Total Put				**1 385**	**14 606 381**	**(60 217)**	**9 023**	**37 674 678**	**1 355 686**
Total Warrants				**4 027**	**67 228 088**	**676 965**	**25 418**	**122 095 978**	**5 788 693**

NOTE 15 – RISK MANAGEMENT

The Company and several of its service providers are subsidiaries of the Société Générale Group and therefore benefit from Société Générale's internal control systems.

For any further information on the risks relating to the Group, investors and/or Noteholders should refer to the "Risk and Capital Adequacy" section of the Registration Document (https://www.societegenerale.com).

15.1 Market risk

Market risk is the risk that changes in market prices, such as interest rates, securities prices, and foreign exchange rates will affect the Company's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters.

The Company issues Notes and Warrants. The Notes are systematically hedged with FFS concluded with Société Générale, with strictly identical characteristics. In the same way, the Warrants issued are hedged with Options concluded with Société Générale, with strictly identical characteristics.

The risks associated with the investment in the Notes and Warrants depend on several factors. Such factors vary depending on the characteristics of the Notes and Warrants issued, in particular depending on the underlying, the maturity of the Notes, the Secured / Unsecured status of the Notes, the interest rates incurred, the volatility of the underlying, etc.

The main risks in relation to investments in Notes and Warrants issued by the Company are described in the Base Prospectus under the section "Risk Factor".

Because of its structure (perfect match between the assets and the liabilities), the impact of an immediate change of a market parameter would have no consequence on the net profit of the Company.

The Company is also exposed to structural interest rate risk, namely through the following transactions: reinvestment of available equity by participating interests or loans to the Company's treasury (SG Luxembourg) with hedged interest rate risk. The structural interest rate risk is monitored via the sensitivity of the economic value of the positions measured through modified duration.

Modified duration is calculated based on the change in the net present value of positions subsequent to a 1% change in the rate curve. Exposure monitoring is based on the determination of modified duration over the short (up to one year), medium (one to five years) and long (more than five years) term.

15.2 Credit risk

Credit risk is the risk that a third party will not be able to meet its contractual obligation.
The Company only contracts financial instruments with SG Luxembourg and Société Générale. Therefore, the credit risk of the Company is limited to the credit risk on SG Luxembourg and Société Générale. Should this situation evolve, specific limits would be proposed to limit the credit risk incurred.

As at 31 December 2020 and 2019, no financial assets were past due nor impaired.

All the Notes and Warrants issued by the Company benefit from a guarantee provided by Société Générale, meaning that payments in respect of the instruments issued by the Company are unconditionally and irrevocably guaranteed by Société Générale (the Guarantor).

As at 31 December 2020, the rating of Société Générale is A from Standard & Poor's and A1 from Moody's.

15.3 Interest rate risk

Interest rate risk is the risk that changes in market interest rates may adversely affect the value of the assets and liabilities of the Company. Due to the financial instruments contracted by the Company with Société Générale to hedge the financial instruments issued, the Company is not significantly exposed to interest rate risk.

15.4 Liquidity risk

Liquidity risk is the risk that the Company may be unable to meet the payment obligations associated with its financial liabilities when they fall due.

The Company does not face any material liquidity risk thanks to the perfect replication between the contractual obligations of:

- the financial instruments issued by the Company; and
- the financial assets replicating the financial instruments issued by the Company.

Analysis per remaining contractual maturities

As at 31 December 2020, analysis per remaining contractual maturities is as follows:

31.12.2020 - EUR' 000	**< 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**> 5 years**	**Without fixed maturity**	**Total**
Cash and cash equivalents	44 293	-	-	-	-	44 293
Financial assets at fair value through profit or loss						
- *Mandatorily at fair value through profit or loss*	3 402 805	8 286 764	16 244 254	15 201 828	-	43 135 651
- *Trading derivatives*	76 606	199 233	335 032	63 481	-	674 352
Loans and receivables		200	48 702	1 000		49 902
Other assets	835 571	-	-	-	-	835 571
Total assets	**4 359 275**	**8 486 197**	**16 627 988**	**15 266 309**	**-**	**44 739 769**
Financial liabilities at amortised cost	405	16 937	48 000	-	-	65 342
Financial liabilities at fair value through profit or loss						
- *Designated at fair value through profit or loss*	3 406 716	8 286 877	16 243 680	15 209 379	-	43 146 652
- *Trading derivatives*	86 103	198 394	329 063	63 405	-	676 965
Other liabilities	848 336	-	-	-	-	848 336
Tax liabilities	75	-	-	-	-	75
Total liabilities	**4 341 635**	**8 502 208**	**16 620 743**	**15 272 784**	**-**	**44 737 370**

As at 31 December 2019 analysis per remaining contractual maturities is as follows:

31.12.2019 - EUR' 000	**< 3 months**	**From 3 months to 1 year**	**From 1 to 5 years**	**> 5 years**	**Without fixed maturity**	**Total**
Cash and cash equivalents	65 975	-	-	-	-	65 975
Financial assets at fair value through profit or loss						
- *Mandatorily at fair value through profit or loss*	3 163 448	11 165 213	19 600 467	18 964 137	-	52 893 265
- *Trading derivatives*	1 193 884	947 357	1 080 289	2 564 744	-	5 786 274
Loans and receivables	-	1 953	48 707	1 000	-	51 660
Other assets	430 988	-	-	-	-	430 988
Total assets	**4 854 295**	**12 114 523**	**20 729 463**	**21 529 881**	**-**	**59 228 162**
Financial liabilities at amortised cost	681	34 988	48 000	-	-	83 669
Financial liabilities at fair value through profit or loss						
- *Designated at fair value through profit or loss*	3 163 305	11 165 232	19 597 397	18 963 933	-	52 889 867
- *Trading derivatives*	1 191 838	949 542	1 079 739	2 567 574	-	5 788 693
Other liabilities	463 523	-	-	-	-	463 523
Tax liabilities	62	-	-	-	-	62
Total liabilities	**4 819 409**	**12 149 762**	**20 725 136**	**21 531 507**	**-**	**59 225 814**

15.5 Fair Value measurement

According to the fair value hierarchy established by IFRS 13, Level 3 (L3) comprises products valued using inputs that are not based on observable market data (referred to as unobservable inputs).

For these products, fair value is determined using models based on valuation techniques commonly used by market participants to measure financial instruments, such as discounted future cash flows for Notes or the Black & Scholes formula for certain options, and using valuation parameters that reflect current market conditions as at the statement of financial position date. These valuation models are validated independently by the experts from the Market Risk Department of the Group’s Risk Division.

Furthermore, the parameters used in the valuation models, whether derived from observable market data or not, are checked by the Finance Division of Société Générale, in accordance with the methodologies defined by the Market Risk Department.

The Notes and the related FFS are classified as Level 3 when the valuation of the associated embedded derivatives (underlying of the Notes) is also based on unobservable market data.

On each element of an identified list of unobservable parameters, it comes to determining the uncertainty of marking, and cross sensitivities with this uncertainty for a confidence interval of the value of the positions.

In parallel, marking the levels of each of these parameters is collected and reported in the Note.

The methods for determining the level of uncertainty, as well as calculating the confidence interval from sensibilities depend on each parameter.

Transfers from Level 2 to Level 3 are determined at the end of each month and occur in case of a modification within a parameter (e.g. no longer linked to the deal, modification of the observability rule of the parameter).

Notes to the financial statements

As at 31 December 2020

Estimates of Level 3 instruments and other most significant unobservable inputs as at 31 December 2020 (by type of underlyings):

<table>
<tr><th>Type of underlyings</th><th>Assets In million EUR</th><th>Liabilities In million EUR</th><th>Main products</th><th>Valuation techniques used</th><th>Significant unobservable inputs</th><th>Range of unobservable inputs Min & Max</th></tr>
<tr><td rowspan="5">Equity / funds</td><td rowspan="5">18 295</td><td rowspan="5">18 299</td><td rowspan="5">Simple and complex derivatives on funds, equities or baskets on stocks</td><td rowspan="5">Various option models on funds, equities or baskets on stocks</td><td>Equity volatilities</td><td>[1.6% ; 347.5%]</td></tr>
<tr><td>Equity dividends</td><td>[0.0% ; 35.8%]</td></tr>
<tr><td>Unobservable correlations</td><td>[-99.6% ; 100 %]</td></tr>
<tr><td>Hedge funds volatilities</td><td>[7.6% ; 20.0%]</td></tr>
<tr><td>Mutual funds volatilities</td><td>[2.1% ; 26.1%]</td></tr>
<tr><td rowspan="4">Rates and Forex</td><td rowspan="4">4 065</td><td rowspan="4">4 064</td><td>Hybrid forex / interest rate or credit / interest rate derivatives</td><td>Hybrid forex interest rate or credit interest rate option pricing models</td><td>Correlations</td><td>[-46.2% ; 90%]</td></tr>
<tr><td>Forex derivatives</td><td>Forex option pricing models</td><td>Forex volatilities</td><td>[0.0% ; 27.5%]</td></tr>
<tr><td>Interest rate derivatives whose notional is indexed on the prepayment behaviour on European collateral pools</td><td>Prepayement modeling</td><td>Constant prepayment rates</td><td>[0.0% ; 20.0%]</td></tr>
<tr><td>Inflation instruments and derivatives</td><td>Inflation pricing models</td><td>Inflation/ inflation correlations</td><td>[55.0% ; 88.90%]</td></tr>
<tr><td rowspan="5">Credit</td><td rowspan="5">4 409</td><td rowspan="5">4 416</td><td rowspan="2">Collateralized Debt Obligations and index tranches</td><td rowspan="2">Recovery and base correlation projection models</td><td>Time to default correlations</td><td>[0% ; 100%]</td></tr>
<tr><td>Recovery rate variance for single name underlyings</td><td>[0% ; 100%]</td></tr>
<tr><td rowspan="3">Other credit derivatives</td><td rowspan="3">Credit default models</td><td>Time to default correlations</td><td>[0% ; 100%]</td></tr>
<tr><td>Quanto correlations</td><td>[-50% ; 40%]</td></tr>
<tr><td>Unobservable credit spreads</td><td>[0 bps ; 1 000 bps]</td></tr>
<tr><td>Commodity</td><td>5</td><td>5</td><td>Derivatives on commodities baskets</td><td>Option models on commodities</td><td>Commodities correlations</td><td>0</td></tr>
<tr><td>Total</td><td>26 774</td><td>26 784</td><td></td><td></td><td></td><td></td></tr>
</table>

Unobservable inputs add a degree of uncertainty in the valuation of Level 3 instruments. However, by its very nature, and considering mirror transactions are concluded with Société Générale to hedge the financial liabilities issued by the Company, the Company has no market risk exposure. The impact of an immediate change in an unobservable parameter would have no consequence on the net profit or net equity of the Company. Moreover, changes in an unobservable parameter would have by underlying a minor effect on both assets and liabilities.

Notes to the financial statements
As at 31 December 2020

The fair values together with the carrying amounts shown in the statement of financial position are as follows:

31.12.2020 - EUR' 000	**Carrying amount**	**Fair value**
Cash and cash equivalents	44 293	44 293
Financial assets at fair value through profit or loss		
- *Mandatorily at fair value through profit or loss*	43 135 651	43 135 651
- *Trading derivatives*	674 352	674 352
Loans and receivables *	49 902	51 057
Other assets	835 571	835 571
Total assets	**44 739 769**	**44 740 924**
Financial liabilities at amortised cost *	65 342	66 995
Financial liabilities at fair value through profit or loss		
- *Designated at fair value through profit or loss*	43 146 652	43 146 652
- *Trading derivatives*	676 965	676 965
Other liabilities	848 336	848 336
Tax liabilities	75	75
Total liabilities	**44 737 370**	**44 739 023**

31.12.2019 - EUR' 000	**Carrying amount**	**Fair value**
Cash and cash equivalents	65 975	65 975
Financial assets at fair value through profit or loss		
- *Mandatorily at fair value through profit or loss*	52 893 265	52 893 265
- *Trading derivatives*	5 786 274	5 786 274
Loans and receivables *	51 660	53 302
Other assets	430 988	430 988
Total assets	**59 228 162**	**59 229 804**
Financial liabilities at amortised cost *	83 669	85 311
Financial liabilities at fair value through profit or loss		
- *Designated at fair value through profit or loss*	52 889 867	52 889 867
- *Trading derivatives*	5 788 693	5 788 693
Other liabilities	463 523	463 523
Tax liabilities	62	62
Total liabilities	**59 225 814**	**59 227 456**

* For Loans and receivables and Financial liabilities at amortised cost, the fair values are calculated by discounting the expected future cash flows under a EUR risk free curve adjusted with Société Générale Group credit spread curve (EUR swap curve from Bloomberg and Société Générale credit spread curve provided by Risk department Paris). Determining fair value is dependent on many factors and can be an estimate of what value may be obtained in the open market at any point in time.

Notes to the financial statements
As at 31 December 2020

<u>The fair value hierarchy of IFRS 13</u>

As at 31 December 2020, the Company determined the fair values of its financial instruments on the basis of the following hierarchy:

31.12.2020 - EUR' 000	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
- *Mandatorily at fair value through profit or loss*		**16 742 790**	**26 392 861**	**43 135 651**
Commodities instruments	-	65 635	5 146	70 781
Credit derivatives/securities	-	757 733	3 868 234	4 625 967
Equity and index securities	-	13 294 655	17 941 949	31 236 604
Foreign exchange instruments/securities	-	769 582	1 507 575	2 277 157
Interest rate instruments/securities	-	1 540 967	2 557 228	4 098 195
Other financial instruments	-	314 218	512 729	826 947
- Trading derivatives		**293 242**	**381 110**	**674 352**
Equity and Index instruments	-	283 580	352 688	636 268
Foreign exchange instruments / securities	-	121	-	121
Other financial instruments	-	9 541	28 422	37 963
Financial liabilities at fair value through profit or loss				
- Designated at fair value through profit or loss		**16 756 021**	**26 390 631**	**43 146 652**
Commodities instruments	-	65 635	5 146	70 781
Credit derivatives/securities	-	758 637	3 867 054	4 625 691
Equity and index securities	-	13 300 879	17 941 049	31 241 928
Foreign exchange instruments/securities	-	769 390	1 507 425	2 276 815
Interest rate instruments/securities	-	1 541 023	2 557 228	4 098 251
Other financial instrument	-	320 457	512 729	833 186
- Trading derivatives		**283 392**	**393 573**	**676 965**
Equity and Index instruments	-	275 506	357 534	633 040
Foreign exchange instruments / securities	-	45	-	45
Other financial instruments	-	7 841	36 039	43 880

Notes to the financial statements
As at 31 December 2020

As at 31 December 2019, the Company determined the fair values of its financial instruments on the basis of the following hierarchy:

31.12.2019 - EUR' 000	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at fair value through profit or loss				
- Mandatorily at fair value through profit or loss	**-**	**21 171 636**	**31 721 629**	**52 893 265**
Commodities instruments	-	736 757	6 113	742 870
Credit derivatives/securities	-	1 378 833	4 856 266	6 235 099
Equity and index securities	-	15 198 731	20 867 313	36 066 044
Foreign exchange instruments/securities	-	1 777 010	847 690	2 624 700
Interest rate instruments/securities	-	1 921 912	3 961 009	5 882 921
Other financial instruments	-	158 393	1 183 238	1 341 631
- Trading derivatives	**-**	**5 229 694**	**556 580**	**5 786 274**
Equity and Index instruments	-	3 203 565	222 023	3 425 588
Other financial instruments	-	2 026 129	334 557	2 360 686
Financial liabilities at fair value through profit or loss				
- Designated at fair value through profit or loss	**-**	**21 169 553**	**31 720 314**	**52 889 867**
Commodities instruments	-	736 757	6 113	742 870
Credit derivatives/securities	-	1 379 219	4 855 992	6 235 211
Equity and index securities	-	15 197 980	20 866 396	36 064 376
Foreign exchange instruments/securities	-	1 775 900	847 573	2 623 473
Interest rate instruments/securities	-	1 921 464	3 961 009	5 882 473
Other financial instrument	-	158 233	1 183 231	1 341 464
- Trading derivatives	**-**	**5 229 108**	**559 585**	**5 788 693**
Equity and Index instruments	-	3 201 226	221 988	3 423 214
Other financial instruments	-	2 027 882	337 597	2 365 479

Notes to the financial statements
As at 31 December 2020

The following table describes the variation in Level 3 by financial instruments (in KEUR):

Financial liabilities at fair value through profit or loss	**Balance at 01.01.2020**	Acquisitions (Issuance)	Change in fair value	Reimbursements	Transfers from L2 to L3	Transfers from L3 to L2	Offsetting of the assets and liabilities	**Balance 31.12.2020**
Designated at fair value through P&L	**31 720 314**	**22 296 217**	**(1 385 452)**	**(15 265 696)**	**3 317 982**	**(12 106 854)**	**(2 185 880)**	**26 390 631**
Equity and index instrument	20 866 396	18 626 719	(1 042 806)	(10 938 790)	2 895 051	(11 019 510)	(1 446 011)	**17 941 049**
Commodity instruments	6 113	-	431	14 142	814	(15 831)	(523)	**5 146**
Credit derivatives	4 855 992	841 742	(323 127)	(1 475 901)	179 927	(182 710)	(28 869)	**3 867 054**
Foreign exchange instruments	847 573	2 261 911	(85 711)	(215 326)	156 576	(533 014)	(924 584)	**1 507 425**
Interest rate instruments	3 961 009	446 628	67 452	(1 674 612)	66 762	(335 807)	25 796	**2 557 228**
Others financial instruments	1 183 231	119 217	(1 691)	(975 209)	18 852	(19 982)	188 311	**512 729**
Trading derivatives	**559 585**	**(4 442)**	**328 411**	**(271 242)**	**(173 667)**	**501**	**(45 573)**	**393 573**
Equity and index instruments	221 988	(6 097)	58 183	62 582	68 836	419	(48 377)	**357 534**
Foreign exchange instruments	-	-	252 680	-	(252 680)	-	-	**-**
Other financial instruments	337 597	1 655	17 548	(333 824)	10 177	82	2 804	**36 039**

The above figures are valued on the liabilities side at fair value through profit or loss. Variations of Level 3 of financial instruments in assets are not presented because the figures are similar.

Transfers from Level 3 to Level 2

The consensus data provided by external counterparties are considered observable if the underlying market is liquid and if the prices provided are confirmed by actual transactions. For high maturities, these consensus data are not observable. This is the case for the implied volatility used for the valuation of options with maturities of more than five years. However, when the residual maturity of the instrument falls below five years, its fair value becomes sensitive to observable parameters.

Transfers from Level 2 to Level 3

Transfers from Level 2 to Level 3 can occur in case of a modification within a parameter (no longer linked to the deal, modification of the observability rule of the parameter, etc…).

15.6 Operational risk

Operational risk is the risk of loss or fraud caused by defects or failures in internal procedures or systems, human error or external events, including IT risk and management risk. Particular attention is paid to compliance risk, which receives enhanced monitoring.

The Company participates in the effort to strengthen the management and monitoring of operational risk led by the Société Générale Group. This effort is guided by the Operational Risk Department, which reports to the Société Générale Group Risk Department, and is relayed by different Group operational risk monitoring units responsible for implementing the policies and directives issued by the Société Générale Group and monitoring and controlling operational risks.

The monitoring arrangement mainly relies on four processes supervised by the operational risk departments: periodic risk and control self-assessment (RCSA), collect of internal data on losses due to operational errors with exhaustive real-time reporting of incidents, pattern analyses, and permanent control system.

These procedures are supplemented by a crisis management unit and a business continuity plan.

NOTE 16 – RELATED PARTIES

During the year, the Company entered into transactions with related parties. Those transactions along with related balances as at 31 December 2020 and 2019 are presented below. Related parties are considered to be a party that has the ability to control the Company or exercise significant influence over the Company in making financial or operational decisions. The Company has a related party relationship with SG Luxembourg, its parent company (SG) and with its Executive Board Members, Supervisory Board Members and Executive Officers. As disclosed below in the table, the Company entered into transactions with SG Luxembourg and its parent company (SG).

The issued Notes are sold to Société Générale as market maker, such Notes being expected to be subscribed *in fine* by third party investors, either for their own account or via distribution network. Moreover, all Notes are guaranteed by Société Générale.
Also, the Company borrows securities from Société Générale, which serve as collateral for the secured Notes issued by the Company.

Notes to the financial statements
As at 31 December 2020

As at 31 December 2020 EUR' 000	Société Générale (Parent Company)	SG Luxembourg	Other SG Group entities
Cash and cash equivalents	33 538	31	10 032
Financial assets at fair value through profit or loss			
- *Mandatorily at fair value through profit or loss*	43 135 651	-	-
- *Trading derivatives*	674 352	-	-
Loans and receivables	-	49 902	-
Other assets	835 571	-	-
Total assets	**44 679 112**	**49 933**	**10 032**
Financial liabilities at amortised cost	-	64 936	-
Financial liabilities at fair value through profit or loss			
- *Designated at fair value through profit or loss**	-	-	-
- *Trading derivatives**	-	-	-
Other liabilities	845 107	-	-
Tax liabilities	-	75	-
Total liabilities	**845 107**	**65 011**	**-**
Interest income	30	896	-
Commission income	48 748	-	-
Total revenues	**48 778**	**896**	**-**
Interest expenses	(690)	(17 720)	-
Personnel expenses	-	(273)	-
Other operating charges	(2 832)	(20 709)	(3 377)
Total expenses	**(3 522)**	**(38 702)**	**(3 377)**
Total comprehensive income for the financial year	**45 256**	**(37 806)**	**(3 377)**
Financial commitments	**2 498 866**	**-**	**-**
Financial commitments-collateral to be returned	**3 924 732**	**-**	**-**

***The financial liabilities at fair value through profit or loss appearing on the statement of financial position are the financial instruments issued by the Company and subscribed by investors, who are not related parties.**

Notes to the financial statements
As at 31 December 2020

As at 31 December 2019 EUR' 000	Société Générale (Ultimate Parent Company)	SG Luxembourg (Parent Company)	Other SG Group entities
Cash and cash equivalents	62 219	1 426	1 106
Financial assets at fair value through profit or loss			
- *Mandatorily at fair value through profit or loss*	52 893 265	-	-
- *Trading derivatives*	5 786 274	-	-
Loans and receivables	-	51 660	-
Other assets	430 988	-	-
Total assets	**59 172 746**	**53 086**	**1 106**
Financial liabilities at amortised cost	-	82 988	-
Financial liabilities at fair value through profit or loss			
- *Designated at fair value through profit or loss**	-	-	-
- *Trading derivatives**	-	-	-
Other liabilities	(461 711)	-	-
Tax liabilities	-	62	-
Total liabilities	**(461 711)**	**83 050**	**-**
Interest income	18	949	-
Commission income	52 679	-	-
Other income**	14 384	-	-
Total revenues	**67 081**	**949**	**-**
Interest expenses	(405)	(35 805)	-
Personnel expenses	-	(411)	-
Other operating charges	(1 755)	(21 033)	(3 865)
Total expenses	**(2 160)**	**(57 249)**	**(3 865)**
Total comprehensive income for the financial year	**64 921**	**(56 300)**	**(3 865)**
Financial commitments	**2 836 408**	**-**	**-**
financial commitments-collateral to be returned	**4 468 186**	**-**	**-**

* The financial liabilities at fair value through profit or loss appearing on the statement of financial position are the financial instruments issued by the Company and subscribed by investors, who are not related parties.

** As explained in Note 2.4, “Other Income” with Société Générale S.A. included in 2019 an excess remuneration of KEUR 14 384 for the year ended 31 December 2019 .

NOTE 17 – REMUNERATION, ADVANCES AND LOANS GRANTED TO MEMBERS OF THE ADMINISTRATIVE OR SUPERVISORY BODY

The independent director of the Company, earned a remuneration of EUR 28 000 for his services related to the year ended 31 December 2020 (31 December 2019: EUR 28 000).

As at 31 December 2020 and 2019, no other payment, advance or loans were given to members of the administrative or supervisory body.

NOTE 18 – SUBSEQUENT EVENTS

By resolution adopted on 15 January 2021, the Executive Board decided to increase the capital of the Company from EUR 2 000 280 to EUR 2 000 320 by the issue of a new share with a nominal value of EUR 40, subscribed by Société Générale Luxembourg S.A.. After this increase, the subscribed and fully paid share capital is EUR 2 000 320, divided into 50 008 shares with a nominal value of EUR 40 each. Such increase resulted in an allocation of EUR 16 925 951 to the share premium account.

In January and April 2021, SG Issuer, as the Issuer of Notes linked to the credit risk of a French corporate, and Société Générale, as the Guarantor, were brought before the courts of Paris (alongside other French financial institutions) by end investors to obtain compensation for the financial loss they suffered on their investment in these securities (16 000 KEUR for securities issued by SG Issuer and guaranteed by Société Générale). The French corporate was the subject of a "safeguard procedure", which constitutes a credit event under the terms of the Notes which had a strong impact on the value of the Notes. These investors rely on unfounded allegations according to which SG Issuer and Société Générale were aware of the difficulties of the French corporate when setting up and marketing these Notes and that in doing so, they failed to meet their regulatory obligations (to act in an honest, fair and professional manner, to provide information on the product risks and to determine the suitability of the Notes for retail investors).

For this litigation (and any other litigation relating to securities issued by SG Issuer), SG Issuer is entitled to an indemnification by Société Générale in respect of any sum due by SG Issuer in the context of this litigation regarding potential damages or attorneys' fees.

APPENDIX III

REPRODUCTION OF THE PRESS RELEASE DATED 6 MAY 2021 CONTAINING THE GUARANTOR'S CONSOLIDATED FINANCIAL RESULTS FOR THE FIRST QUARTER ENDED 31 MARCH 2021

The information set out below is a reproduction of the press release dated 6 May 2021 containing the Guarantor's consolidated financial results for the first quarter ended 31 March 2021.

SOCIETE GENERALE

RESULTS AT MARCH 31ST 2021

Press release

Paris, May 6th 2021

SHARP REBOUND IN EARNINGS

Revenues up +21% vs. Q1 20 at EUR 6.2bn (+25%*), with a good performance in all the businesses particularly in Global Markets, Financial Services and Financing & Advisory

Continued discipline on costs, with underlying operating expenses down -2.2%(1) vs. Q1 20 despite the increase in the contribution to the Single Resolution Fund and variable charges in conjunction with the increase in revenues, leading to a very strong positive jaws effect

Doubling of underlying gross operating income vs. Q1 20 to EUR 2.1bn(1)

Underlying Group net income of EUR 1.3bn(1), reported Group net income of EUR 814 million

Profitability (ROTE) at 10.1%(1)

CONFIRMATION OF THE QUALITY OF THE BALANCE SHEET AND THE GROUP'S FINANCIAL SOLIDITY

Low cost of risk at 21 basis points in Q1 21, with provisions on performing loans stable at a high level

2021 cost of risk expected between 30 and 35 basis points

CET 1 ratio level at 13.5%(2) at end-March 2021, around 450 basis points above the regulatory requirement

Efficient capital allocation between businesses

2021 PRIORITIES: SUPPORTING CUSTOMERS AND EXECUTION OF STRATEGIC INITIATIVES TOWARDS SUSTAINABLE GROWTH

Objective of supporting our customers in emerging from the crisis and their energy and digital transition

Merger of the networks in France

Expansion of growth drivers (record client onboarding at Boursorama and acquisition of the activities of Banco Sabadell by ALD)

Definition of a new roadmap for Global Banking & Investor Solutions aimed at delivering sustainable growth

Finalisation of the Group's refocusing programme following the announcement of exclusive discussions being entered into with Amundi with a view to the disposal of Lyxor's asset management activities

Frédéric Oudéa, the Group's Chief Executive Officer, commented:

"This excellent start to the year confirms, in particular, the relevance of the decisions taken in recent quarters and their successful execution. It is a major milestone for the Group and enables us to approach 2021 with confidence and determination, confirming our ability to achieve our financial targets. In line with 2020, and in a still uncertain environment on the health and economic front, our teams have maintained their exceptional commitment to supporting our customers and economies. From a commercial and financial viewpoint, the sharp rebound in our revenues, in keeping with the two previous quarters, our continued cost discipline and good risk management have enabled a very significant recovery in our earnings and profitability. We have also provided further confirmation of the quality of our balance sheet and loan portfolio. Consequently, over the next few quarters, priority will be given firstly to supporting our customers in gradually emerging from the crisis, relaunching their activity and adjusting their business models to digital and CSR challenges and secondly, to the effective implementation of our growth, innovation and operational efficiency initiatives which are strong value creators."

---

(1) underlying data. See methodology note No. 5 for the transition from accounting data to underlying data
(2) including 25 basis points in respect of IFRS 9 phasing
*The footnote * in this document corresponds to data adjusted for changes in Group Structure and at constant exchange rates*

1. GROUP CONSOLIDATED RESULTS

In EURm	Q1 21	Q1 20	Change	
Net banking income	6,245	5,170	+20.8%	+25.2%*
Operating expenses	(4,748)	(4,678)	+1.5%	+3.7%*
Underlying operating expenses(1)	*(4,097)*	*(4,188)*	*-2.2%*	*+0.2%**
Gross operating income	1,497	492	x 3.0	x 3.7*
Underlying gross operating income(1)	*2,148*	*982*	*x 2.2*	*x 2.4**
Net cost of risk	(276)	(820)	-66.3%	-65.1%*
Underlying net cost of risk(1)	*(276)*	*(820)*	*-66.3%*	*-65.1%**
Operating income	1,221	(328)	n/s	n/s
Underlying operating income(1)	*1,872*	*(162)*	*x 11.6*	*x 17.5**
Net profits or losses from other assets	6	80	-92.5%	-92.5%*
Underlying net profits or losses from other assets(1)	*6*	*157*	*-96.2%*	*-96.2%**
Net income from companies accounted for by the equity method	3	4	-25.0%	-25.0%*
Underlying net income from companies accounted for by the equity method(1)	*3*	*4*	*-25.0%*	*-25.0%**
Impairment losses on goodwill	0	0	n/s	n/s
Income tax	(283)	46	n/s	n/s
Reported Group net income	814	(326)	n/s	n/s
Underlying Group net income(1)	*1,298*	*98*	*x 13.2*	*x 22.5**
ROE	5.2%	-3.6%		
ROTE	5.9%	-4.2%		
Underlying ROTE(1)	*10.1%*	*-0.5%*		

(1) Adjusted for exceptional items and linearisation of IFRIC 21

Societe Generale's Board of Directors, which met on May 5th, 2021, under the chairmanship of Lorenzo Bini Smaghi, examined the Societe Generale Group's results for Q1 2021.

The various restatements enabling the transition from underlying data to published data are presented in the methodology notes (section 10.5).

Net banking income

The Group's net banking income was up +20.8% (+25.2%*) in Q1 21 vs. Q1 20, confirming the rebound observed in H2 2020.

There was a further improvement in French Retail Banking's performance in Q1 21 despite the extension of the health restrictions. Net banking income (excluding PEL/CEL provision) was therefore lower than in Q1 20 (-2.4%), which had still been little impacted by the crisis.

International Retail Banking & Financial Services posted a slight increase in revenues (+0.1%*), driven by strong growth in the revenues of Financial Services whose net banking income rose +7.9%*. International Retail Banking delivered a resilient performance, with revenues down -3.8%* and a mixed momentum according to the region.

Global Banking & Investor Solutions turned in an excellent performance, with revenues up +60.4%* vs. Q1 20.

Operating expenses

Underlying operating expenses totalled EUR -4,097 million, down -2.2% and stable when adjusted for changes in Group structure and at constant exchange rates (+0.2%*) vs. Q1 20. The strict discipline observed in all the businesses offset the increase in the IFRIC 21 charge and variable costs in conjunction with the growth in revenues.

The Group therefore generated a strong positive jaws effect, with an underlying cost to income ratio of 66%.

Cost of risk

The commercial cost of risk stood at a low level of EUR 276 million, or 21 basis points, significantly lower than in Q1 20 (65 basis points). It corresponds to an increase in the provision on non-performing loans of EUR 300 million and a decline in the provision on performing loans of EUR -24 million.

The Group's provisions on performing loans currently amount to EUR 3,578 million. They were EUR 3,622 million at December 31st 2020, after an increase of +59% during last year.

As part of the support provided to its customers during the crisis, the Group granted repayment moratoriums and State Guaranteed Loans. At March 31st 2021, the total amount of repayment moratoriums in force represented around EUR 2 billion and State Guaranteed Loans, around EUR 19 billion. Net exposure to State Guaranteed Loans in France ("PGE") is around EUR 2 billion.

The gross doubtful outstandings ratio amounted to 3.3% at March 31st 2021 (stable vs. December 31st 2020). It was 3% on repayment moratoriums and 3% on State Guaranteed Loans. The Group's gross coverage ratio for doubtful outstandings stood at 51%(2) at March 31st 2021, vs. 52% at December 31st 2020.

The Group anticipates a cost of risk of between 30 and 35 basis points in 2021.

Net profits or losses from other assets

Net profits or losses from other assets totalled EUR +6 million in Q1 21 vs. EUR +80 million in Q1 20, including EUR -77 million corresponding to the effect of the application of IFRS 5 as part of the implementation of the Group's refocusing plan and EUR +130 million in respect of the Group's property disposal programme.

Group net income

In EURm	Q1 21	Q1 20
Reported Group net income	**814**	(326)
Underlying Group net income(1)	**1,298**	98

In %	Q1 21	Q1 20
ROTE (reported)	**5.9%**	-4.2%
Underlying ROTE[1]	**10.1%**	-0.5%

Earnings per share amounts to EUR 0.79 in Q1 21 (vs. EUR -0.57 in Q1 20).
Underlying(3) earnings per share amounts to EUR 0.83 in Q1 21 (vs. EUR -0.48 in Q1 20).

---

(1) Adjusted for exceptional items and the linearisation of IFRIC 21
(2) Ratio between the amount of provisions on doubtful outstandings and the amount of these same outstandings
(3) calculated on the basis of underlying Group net income excluding linearisation of IFRIC 21. Taking into account IFRIC linearisation, it is EUR 1.36 in Q1 21 and EUR -0.07 in Q1 20

2. THE GROUP'S FINANCIAL STRUCTURE

Group **shareholders' equity** totalled EUR 62.9 billion at March 31st, 2021 (EUR 61.7 billion at December 31st, 2020). Net asset value per share was EUR 62.8 and tangible net asset value per share was EUR 55.2.

The **consolidated balance sheet** totalled EUR 1,503 billion at March 31st, 2021 (EUR 1,462 billion at December 31st, 2020). The net amount of customer loan outstandings at March 31st, 2021, including lease financing, was EUR 447 billion (EUR 440 billion at December 31st, 2020) – excluding assets and securities purchased under resale agreements. At the same time, customer deposits amounted to EUR 462 billion, vs. EUR 451 billion at December 31st, 2020 (excluding assets and securities sold under repurchase agreements).

At April 16th, 2021, the parent company had issued EUR 18.3 billion of medium/long-term debt, having an average maturity of 5.8 years and an average spread of 39 basis points (vs. the 6-month midswap, excluding subordinated debt). The subsidiaries had issued EUR 1.0 billion. At April 16th, 2021, the Group had issued a total of EUR 19.3 billion of medium/long-term debt. Excluding structured issuances, the parent company had achieved 65% of its annual programme at April 16th, 2021.

The LCR (Liquidity Coverage Ratio) was well above regulatory requirements at 143% at end-March 2021, vs. 149% at end-December 2020, and 141% on average in Q1 2021 vs. 144% on average in Q1 2020. At the same time, the NSFR (Net Stable Funding Ratio) was over 100% at end-March 2021.

The Group's phased-in **risk-weighted assets** (RWA) amounted to EUR 353.1 billion at March 31st, 2021 (vs. EUR 351.9 billion at end-December 2020) according to CRR/CRD4 rules. Risk-weighted assets in respect of credit risk represent 81.8% of the total, at EUR 288.6 billion, up 0.5% vs. December 31st, 2020.

At March 31st, 2021, the Group's **Common Equity Tier 1** ratio stood at 13.5%, or average 450 basis points above the regulatory requirement. The CET1 ratio at March 31st, 2021 includes an effect of +25 basis points for phasing of the IFRS 9 impact. Excluding this effect, the fully-loaded ratio amounts to 13.2%. The Tier 1 ratio stood at 15.8% at end-March 2021 (16% at end-December 2020) and the total capital ratio amounted to 19.1% (19.2% at end-December 2020).

The phased-in **leverage ratio** stood at 4.5% at March 31st, 2021 (4.8% at end-December 2020).

With a level of 31.0% of RWA and 8.8% of leveraged exposure at end-March 2021, the Group's TLAC ratio is above the FSB's requirements for 2021. At March 31st, 2021, the Group was also above its MREL requirements of 8.5% of the TLOF[1] (which, in December 2017, represented a level of 24.37% of RWA), which were used as a reference for the SRB calibration.

The Group is rated by four rating agencies: (i) Fitch Ratings - long-term rating "A-", stable rating, senior preferred debt rating "A", short-term rating "F1"; (ii) Moody's – long-term rating (senior preferred debt) "A1", stable outlook, short-term rating "P-1"; (iii) R&I - long-term rating (senior preferred debt) "A", stable outlook; and (iv) S&P Global Ratings - long-term rating (senior preferred debt) "A", negative outlook, short-term rating "A-1".

[1] *TLOF: Total Liabilities and Own Funds*

3. FRENCH RETAIL BANKING

In EURm	Q1 21	Q1 20	Change
Net banking income	1,847	1,880	-1.8%
Net banking income excl. PEL/CEL	*1,859*	*1,905*	*-2.4%*
Operating expenses	(1,453)	(1,450)	+0.2%
Gross operating income	394	430	-8.4%
Net cost of risk	(123)	(249)	-50.6%
Operating income	271	181	+49.7%
Reported Group net income	203	219	-7.3%
RONE	7.2%	7.8%	
Underlying RONE[1]	*10.4%*	*10.7%*	

(1) Adjusted for the linearisation of IFRIC 21 and PEL/CEL provision

Despite the extension of the health restrictions, French Retail Banking's commercial performance continued to gradually improve. The networks continued to support the economy, accompanying individual, corporate and professional customers in this still uncertain environment.

Société Générale and Crédit du Nord networks:

The bank disbursed a total amount of around EUR 18 billion in respect of State Guaranteed Loans ("PGE") to support the Corporate and Professional customers segment. In May, it will also market a "Recovery Participatory Loan" (Prêts Participatifs Relance) offering.

The average loan outstandings of the Societe Generale and Crédit du Nord networks rose 7% vs. Q1 20 to EUR 210 billion. Average outstanding loans to corporate and professional customers climbed 16% to EUR 97 billion, bolstered by the distribution of State Guaranteed Loans.

The average outstanding balance sheet deposits[1] of the Societe Generale and Crédit du Nord networks increased 14% vs. Q1 20 to EUR 229 billion, still driven by sight deposits.

As a result, the average loan/deposit ratio stood at 92% in Q1 21 vs. 98% in Q1 20.

Insurance assets under management totalled EUR 89 billion in Q1 21. Life insurance saw its net inflow grow by EUR 0.7 billion, with the unit-linked share accounting for 37% of new business in Q1 21.

Private Banking's assets under management totalled EUR 72 billion at end-March 2021. Net inflow remained buoyant at EUR 1.3 billion in Q1 21.

In Personal Protection insurance, premiums were up +3% vs. Q1 20. The **financial commissions** of the Societe Generale and Crédit du Nord networks were 7% higher than in Q1 20.

[1] *Including BMTN (negotiable medium-term notes)*

Boursorama:

The bank consolidated its position as the leading online bank in France, with more than 2.8 million clients at end-March 2021. Client onboarding at Boursorama reached a record level, with 203,000 new clients in Q1 21. This quarter, the bank distinguished itself by being classified No. 1 in Europe in the digital performance ranking (D Rating ranking – March 2021). Boursorama also topped the list of French people's favourite brand in the online Banks category (March 2021). Finally, the bank was classified No. 1 in the Customer Relationship Podium ranking in the banks category (March 2021).

Housing loan production experienced strong growth (+27% vs. Q1 20). Deposit and financial savings climbed 30% vs. Q1 20. Furthermore, the number of stock market orders increased by 1.5x compared to Q1 20.

Net banking income excluding PEL/CEL

Net banking income restated for PEL/CEL effects was -2.4% lower than in Q1 20 at EUR 1,859 million. Net interest income (excluding PEL/CEL) was down -5.7% vs. Q1 20, impacted primarily by the negative effect resulting from higher deposit volumes in a negative interest rate environment. Despite the extension of lockdown measures, commissions rose +0.8% vs. Q1 20.

Operating expenses

Underlying operating expenses totalled EUR 1,336 million, down -1.6% vs. Q1 20 and -2.3% excluding Boursorama. The cost to income ratio (after linearisation of the IFRIC 21 charge and restated for the PEL/CEL provision) stood at 71.9% in Q1 21 vs. 71.3% in Q1 20.

Cost of risk

The commercial cost of risk was -51% lower than in Q1 20. It amounted to EUR 123 million, or 23 basis points, substantially lower than in Q1 20 (49 basis points).

Net profits or losses from other assets

Net profits or losses from other assets totalled EUR 3 million in Q1 21. They amounted to EUR 131 million in Q1 20, including a capital gain of EUR 130 million relating to the Group's property disposal programme.

Contribution to Group net income

The contribution to Group net income was EUR 203 million, 7.3% lower than in Q1 20. Against a backdrop of low interest rates and the transformation of the networks, RONE (after linearisation of the IFRIC 21 charge and restated for the PEL/CEL provision) stood at 10.4% in Q1 21 (vs. 10.7% in Q1 20) and 11.3% excluding Boursorama.

4. INTERNATIONAL RETAIL BANKING & FINANCIAL SERVICES

In EURm	Q1 21	Q1 20	Change	
Net banking income	1,862	1,964	*-5.2%*	*+0.1%**
Operating expenses	(1,089)	(1,146)	*-5.0%*	*+0.0%**
Gross operating income	773	818	*-5.5%*	*+0.2%**
Net cost of risk	(142)	(229)	*-38.0%*	*-34.9%**
Operating income	631	589	*+7.1%*	*+14.1%**
Net profits or losses from other assets	2	12	*-83.3%*	*-83.3%**
Reported Group net income	392	365	*+7.4%**	*+15.8%**
RONE	15.7%	13.8%		
Underlying RONE(1)	*17.4%*	*15.4%*		

(1) Adjusted for the linearisation of IFRIC 21

International Retail Banking's outstanding loans totalled EUR 86.5 billion in Q1 21. They rose +0.8%* vs. Q1 20 when adjusted for changes in Group structure and at constant exchange rates. Outstanding deposits increased by +7.7%* vs. Q1 20, to EUR 84.6 billion.

For the Europe scope, outstanding loans were up +2.0%* vs. end-March 2020, driven by a healthy momentum in all regions: Western Europe (+1.6%*), Romania (+1.7%*) and the Czech Republic (+2.5%*). Outstanding deposits were up +9.7%* vs. Q1 20.

In Russia, commercial activity continued to be impacted by the lockdown measures. Outstanding loans fell by -4.6%*, the healthy momentum in the individual customers segment being offset by a decline in the corporate customers segment due to substantial repayments of loans granted in the context of the crisis. Outstanding deposits increased by +1.9%* vs. Q1 20.

In Africa, Mediterranean Basin and French Overseas Territories, outstanding loans remained stable. Outstanding deposits grew by +6.3%* vs. end-March 2020.

In the Insurance business, the life insurance savings business enjoyed a healthy momentum, with outstandings increasing +6.8%* vs. end-March 2020. The share of unit-linked products was very high in Q1, amounting to 40% of gross inflow and 34% of outstandings. Despite an increase in France (+1.3%*), Protection insurance fell slightly (-1.0%*). The increase in property/casualty premiums (+1.0%*) was offset by a decline in personal protection with premiums down -2.4%* vs. Q1 20.

Financial Services to Corporates enjoyed a healthy commercial momentum in Q1 21. The number of contracts for Operational Vehicle Leasing and Fleet Management (ALD) was stable at 1.8 million vehicles at end-March 2021. Equipment Finance's new leasing business was up +1.1%* vs. Q1 20, while outstanding loans were down -4.0%*, at EUR 14.2 billion (excluding factoring).

Net banking income

Net banking income amounted to EUR 1,862 million in Q1 21, slightly higher (+0.1%*) than in Q1 20.

International Retail Banking's net banking income totalled EUR 1,187 million, down -3.8%* vs. Q1 20. Despite a good commercial momentum, revenues in Europe declined by -6.1%*, impacted by the lockdown measures and an environment of lower interest rates than in Q1 20. In a still challenging environment in Q1, revenues were also lower (-3.4%*) for the SG Russia scope. The Africa, Mediterranean Basin and French Overseas Territories scope remained resilient, with revenues up +0.1%* vs. Q1 20 and still buoyant activity in Sub-Saharan Africa (revenues up +3.0%* vs. Q1 20).

The Insurance business posted net banking income of EUR 236 million in Q1 21, an increase of +3.5%* vs. Q1 20, which included a contribution of around EUR 6 million to the solidarity fund in France.

Financial Services to Corporates' net banking income was higher (+10.4%*) and amounted to EUR 439 million, driven in particular by ALD which posted an increase in leasing margins (+2%*) and the used car sale result (EUR 439 per unit).

Operating expenses

Operating expenses remained stable when adjusted for changes in Group structure and at constant exchange rates vs. Q1 20 (and were slightly lower -0.2%* on an underlying basis). The cost to income ratio stood at 58.5% in Q1 21.

In **International Retail Banking**, operating expenses were down -1.0%* vs. Q1 20, with a notable effort on the SG Russia scope (-2.0%* vs. Q1 20). Q1 20 included a EUR 11 million contribution to Covid funds in North Africa.

In the **Insurance business**, operating expenses were in line with the commercial expansion ambitions and rose +2.4%* vs. Q1 20 to EUR 110 million.

In **Financial Services to Corporates**, operating expenses were 2.6%* higher than in Q1 20, generating a positive jaws effect.

Cost of risk

The cost of risk amounted to 44 basis points in Q1 21 vs. 67 basis points in Q1 20.

Contribution to Group net income

The contribution to Group net income totalled EUR 392 million, up +15.8%* (+7.4% at current exchange rates) vs. Q1 20.

Underlying RONE stood at 17.4% in Q1 21, vs. 15.4% in Q1 20 (with RONE of 14.6% in International Retail Banking and 21.1% in Financial Services and Insurance).

5. GLOBAL BANKING & INVESTOR SOLUTIONS

In EURm	Q1 21	Q1 20	Change	
Net banking income	2,509	1,627	+54.2%	+60.4%*
Operating expenses	(2,051)	(1,977)	+3.7%	+5.9%*
Gross operating income	458	(350)	n/s	n/s
Net cost of risk	(9)	(342)	-97.4%	-97.2%*
Operating income	449	(692)	n/s	n/s
Reported Group net income	356	(537)	n/s	n/s
RONE	10.0%	-15.8%		
Underlying RONE(1)	*18.1%*	*-9.0%*		

(1) Adjusted for the linearisation of IFRIC 21

Global Banking & Investor Solutions posted robust revenues of EUR 2,509 million in Q1 21, a substantial increase (+54.2%) vs. Q1 20 (+60.4%* when adjusted for changes in Group structure and at constant exchange rates). The businesses benefited from a normalising environment and strong market momentum during Q1 21.

In Global Markets & Investor Services, net banking income totalled EUR 1,651 million, x2.3* vs. Q1 20. Global Markets enjoyed a record quarter, with the highest level of activity since Q1 17.

The Equity businesses enjoyed their best quarter since 2015, with a remarkable performance in each of the regions, all activities having benefited from the good market conditions. There was a significant rebound in revenues (+44% vs. Q4 20) and an increase of +36% vs. the average level of 2019. Structured products enjoyed a good quarter, while completing the review of the product offering initiated in Q2 20. Listed products benefited from strong volumes, particularly in Asia and Germany, where our franchise received the award of "*Certificate House of the Year*" (source *Golden Bull*).

Fixed Income & Currency activities posted a strong performance, with revenues of EUR 625 million, up +51% vs. Q4 20 and +25% vs. the average level of 2019 (level not restated for the revenues of the commodities activity). The reflation theme contributed to strong commercial activity. All the activities performed well in all regions.

Securities Services' revenues were also substantially higher (+16.7%) than in Q1 20, at EUR 175 million. Securities Services' assets under custody amounted to EUR 4,341 billion at end-March 2021, an increase of +0.6% vs. end-December 2020. Over the same period, assets under administration were stable at EUR 639 billion.

Financing & Advisory revenues totalled EUR 633 million in Q1 21, up +2.9%* vs. a good Q1 20 (+0.6% at current structure and exchange rates).

Financing activities turned in a good performance, particularly in aircraft financing and maritime financing. The Asset-Backed Products platform also enjoyed a good Q1.
Investment Banking benefited from a strong momentum, particularly in equity capital markets and acquisition financing. The franchise posted solid revenues, with an increase in Q1.

Global Transaction and Payment Services continued to deliver strong growth, up +5.0%* vs. Q1 20.

Asset and Wealth Management's net banking income totalled EUR 225 million in Q1 21, down -1.7%* vs. Q1 20 (-2.2% at current structure and exchange rates).

Private Banking posted a slightly lower performance (-1.1%*) than in Q1 20 (at EUR 173 million), impacted by pressure on the interest margin and despite strong commercial activity. Net inflow, which totalled EUR +2.5 billion, was positive in all regions. Assets under management were up +4.1% vs. end-December 2020, at EUR 121 billion.

Lyxor's net banking income amounted to EUR 47 million, EUR 3 million lower than in Q1 20. Lyxor's assets under management were substantially higher (+9.9%) than at end-December 2020, at EUR 154 billion. Net inflow was EUR +6.2 billion in Q1 21.

Operating expenses

Underlying operating expenses were down -0.8% vs. Q1 20, reflecting continued strict discipline against the backdrop of an increase in the IFRIC 21 charge and variable costs in conjunction with the growth in revenues. As a result, there was a substantial improvement in operating leverage, with an underlying cost to income ratio of 67%.

Net cost of risk

The commercial cost of risk amounted to 2 basis points (or EUR 9 million), well below the level of 87 basis points in Q1 20, which was adversely affected by the start of the health crisis and some specific files.

Contribution to Group net income

The underlying contribution to Group net income (after linearisation of IFRIC 21) came to EUR 646 million in Q1 21.
Global Banking & Investor Solutions posted a significant underlying RONE of 18.1%.

6. CORPORATE CENTRE

In EURm	Q1 21	Q1 20
Net banking income	27	(301)
Operating expenses	(155)	(105)
Underlying operating expenses(1)	*(71)*	*(67)*
Gross operating income	(128)	(406)
Underlying gross operating income(1)	*(44)*	*(368)*
Net cost of risk	(2)	-
Net profits or losses from other assets	1	(77)
Impairment losses on goodwill	-	-
Net income from companies accounted for by the equity method	1	1
Reported Group net income	(137)	(373)

(1) Adjusted for the linearisation of IFRIC 21 and transformation costs in Q1 21 (EUR 50m)

The Corporate Centre includes:

- the property management of the Group's head office,
- the Group's equity portfolio,
- the Treasury function for the Group,
- certain costs related to restructuring charges for the whole Group, cross-functional projects and certain costs incurred by the Group and not re-invoiced to the businesses.

The Corporate Centre's net banking income totalled EUR 27 million in Q1 21 vs. EUR -301 million in Q1 20. It includes notably the change in fair value of financial instruments corresponding to economic hedges of financial debt but that do not meet IFRS hedge accounting criteria.

Operating expenses totalled EUR -155 million in Q1 21 vs. EUR -105 million in Q1 20. They include the Group's transformation costs for a total amount of EUR -50 million relating to the activities of French Retail Banking (EUR -22 million), Global Banking & Investor Solutions (EUR -17 million) and the Corporate Centre (EUR -11 million). Underlying costs came to EUR 71 million, compared to EUR 67 million in Q1 20.

Gross operating income totalled EUR -128 million in Q1 21 vs. EUR -406 million in Q1 20. Underlying gross operating income was EUR -44 million.

Net profits or losses from other assets amounted to EUR -77 million in Q1 20 and included primarily, in respect of the application of IFRS 5 as part of the implementation of the Group's refocusing plan, a charge of EUR -69 million corresponding to the finalisation of the disposal of Societe Generale de Banque aux Antilles.

The Corporate Centre's contribution to Group net income was EUR -137 million in Q1 21 vs. EUR -373 million in Q1 20.

7. CONCLUSION

The beginning of this year has seen the Group achieve a new milestone and confirm the rebound in activities expected this year in relation to 2020, which was significantly impacted by the crisis.

The Group will present the strategy for Global Banking & Investor Solutions on May 10th, 2021, and then on Corporate Social Responsibility in the second semester 2021.

8. 2021 FINANCIAL CALENDAR

2021 Financial communication calendar

May 18^{th}, 2021	General Meeting
May 25^{th}, 2021	Dividend detachment
May 27^{th}, 2021	Dividend payment
August 3^{rd}, 2021	Second quarter and first half 2021 results
November 4^{th}, 2021	Third quarter and nine-month 2021 results

The Alternative Performance Measures, notably the notions of net banking income for the pillars, operating expenses, IFRIC 21 adjustment, (commercial) cost of risk in basis points, ROE, ROTE, RONE, net assets, tangible net assets, and the amounts serving as a basis for the different restatements carried out (in particular the transition from published data to underlying data) are presented in the methodology notes, as are the principles for the presentation of prudential ratios.

This document contains forward-looking statements relating to the targets and strategies of the Societe Generale Group.
These forward-looking statements are based on a series of assumptions, both general and specific, in particular the application of accounting principles and methods in accordance with IFRS (International Financial Reporting Standards) as adopted in the European Union, as well as the application of existing prudential regulations.

These forward-looking statements have also been developed from scenarios based on a number of economic assumptions in the context of a given competitive and regulatory environment. The Group may be unable to:

- anticipate all the risks, uncertainties or other factors likely to affect its business and to appraise their potential consequences;
- evaluate the extent to which the occurrence of a risk or a combination of risks could cause actual results to differ materially from those provided in this document and the related presentation.

Therefore, although Societe Generale believes that these statements are based on reasonable assumptions, these forward-looking statements are subject to numerous risks and uncertainties, including matters not yet known to it or its management or not currently considered material, and there can be no assurance that anticipated events will occur or that the objectives set out will actually be achieved. Important factors that could cause actual results to differ materially from the results anticipated in the forward-looking statements include, among others, overall trends in general economic activity and in Societe Generale's markets in particular, regulatory and prudential changes, and the success of Societe Generale's strategic, operating and financial initiatives.

More detailed information on the potential risks that could affect Societe Generale's financial results can be found in the Registration Document filed with the French *Autorité des Marchés Financiers*.

Investors are advised to take into account factors of uncertainty and risk likely to impact the operations of the Group when considering the information contained in such forward-looking statements. Other than as required by applicable law, Societe Generale does not undertake any obligation to update or revise any forward-looking information or statements. Unless otherwise specified, the sources for the business rankings and market positions are internal.

9. APPENDIX 1: FINANCIAL DATA

GROUP NET INCOME BY CORE BUSINESS

In EURm	Q1-21	Q1-20	Change
French Retail Banking	203	219	-7.3%
International Retail Banking and Financial Services	392	365	+7.4%
Global Banking and Investor Solutions	356	(537)	n/s
Core Businesses	951	47	x20.2
Corporate Centre	(137)	(373)	n/s
Group	814	(326)	n/s

CONSOLIDATED BALANCE SHEET

	31.03.2021	31.12.2020
Cash, due from central banks	177,582	168,179
Financial assets at fair value through profit or loss	445,009	429,458
Hedging derivatives	16,220	20,667
Financial assets measured at fair value through other comprehensive income	50,250	52,060
Securities at amortised cost	16,525	15,635
Due from banks at amortised cost	63,243	53,380
Customer loans at amortised cost	456,474	448,761
Revaluation differences on portfolios hedged against interest rate risk	284	378
Investment of insurance activities	169,878	166,854
Tax assets	4,900	5,001
Other assets	67,651	67,341
Non-current assets held for sale	675	6
Investments accounted for using the equity method	103	100
Tangible and intangible assets	30,367	30,088
Goodwill	3,821	4,044
Total	**1,502,982**	**1,461,952**

	31.03.2021	31.12.2020
Central banks	3,095	1,489
Financial liabilities at fair value through profit or loss	404,263	390,247
Hedging derivatives	10,762	12,461
Debt securities issued	137,230	138,957
Due to banks	145,530	135,571
Customer deposits	467,711	456,059
Revaluation differences on portfolios hedged against interest rate risk	5,655	7,696
Tax liabilities	1,239	1,223
Other liabilities	89,727	84,937
Non-current liabilities held for sale	167	-
Liabilities related to insurance activities contracts	148,334	146,126
Provisions	4,743	4,775
Subordinated debts	16,215	15,432
Total liabilities	**1,434,671**	**1,394,973**
SHAREHOLDERS' EQUITY		
Shareholders' equity, Group share		
Issued common stocks and capital reserves	22,371	22,333
Other equity instruments	9,295	9,295
Retained earnings	31,646	32,076
Net income	814	(258)
Sub-total	**64,126**	**63,446**
Unrealised or deferred capital gains and losses	(1,206)	(1,762)
Sub-total equity, Group share	**62,920**	**61,684**
Non-controlling interests	5,391	5,295
Total equity	**68,311**	**66,979**
Total	**1,502,982**	**1,461,952**

10. APPENDIX 2: METHODOLOGY

1 - The financial information presented for the quarter ending 31 March 2021 was reviewed by the Board of Directors on 5 May 2021 and has been prepared in accordance with IFRS as adopted in the European Union and applicable at this date, and has not been audited.

2 – Net banking income
The pillars' net banking income is defined on page 41 of Societe Generale's 2021 Registration Document. The terms "Revenues" or "Net Banking Income" are used interchangeably. They provide a normalised measure of each pillar's net banking income taking into account the normative capital mobilised for its activity.

3 – Operating expenses
Operating expenses correspond to the "Operating Expenses" as presented in note 8.1 to the Group's consolidated financial statements as at December 31st, 2020 (pages 466 et seq. of Societe Generale's 2021 Registration Document). The term "costs" is also used to refer to Operating Expenses.
The Cost/Income Ratio is defined on page 41 of Societe Generale's 2021 Registration Document.

4 – IFRIC 21 adjustment
The IFRIC 21 adjustment corrects the result of the charges recognised in the accounts in their entirety when they are due (generating event) so as to recognise only the portion relating to the current quarter, i.e. a quarter of the total. It consists in smoothing the charge recognised accordingly over the financial year in order to provide a more economic idea of the costs actually attributable to the activity over the period analysed.

5 – Exceptional items – Transition from accounting data to underlying data

It may be necessary for the Group to present underlying indicators in order to facilitate the understanding of its actual performance. The transition from published data to underlying data is obtained by restating published data for exceptional items and the IFRIC 21 adjustment.
Moreover, the Group restates the revenues and earnings of the French Retail Banking pillar for PEL/CEL provision allocations or write-backs. This adjustment makes it easier to identify the revenues and earnings relating to the pillar's activity, by excluding the volatile component related to commitments specific to regulated savings.

The reconciliation enabling the transition from published accounting data to underlying data is set out in the table below:

Q1 21 (in EURm)	Operating Expenses	Net profit or losses from other assets	Income tax	Group net income	Business
Reported	(4,748)	6	(283)	814	
IFRIC 21 linearisation	*601*		*(141)*	*448*	
*Transformation charges**	*50*		*(14)*	*36*	*Corporate Center[1]*
Underlying	(4,097)	6	(438)	1,298	

Q1 20 (in EURm)	Operating Expenses	Net profit or losses from other assets	Income tax	Group net income	Business
Reported	(4,678)	80	46	(326)	
IFRIC 21 linearisation	*490*		*(131)*	*347*	
*Group refocusing plan**		*77*	*0*	*77*	*Corporate center*
Underlying	(4,188)	157	(85)	(56)	

* *Exceptional item*
[1] *Transformation and/or restructuring charges related to RBDF (EUR 22m), GBIS (EUR 17m) and Corporate Center (EUR 11m)*

6 – Cost of risk in basis points, coverage ratio for doubtful outstandings

The cost of risk or commercial cost of risk is defined on pages 43 and 635 of Societe Generale's 2021 Registration Document. This indicator makes it possible to assess the level of risk of each of the pillars as a percentage of balance sheet loan commitments, including operating leases.

	(In EUR m)	Q1 21	Q1 20
French Retail Banking	Net Cost Of Risk	123	249
	Gross loan Outstandings	217,606	201,139
	Cost of Risk in bp	23	49
International Retail Banking and Financial Services	Net Cost Of Risk	142	229
	Gross loan Outstandings	130,196	136,407
	Cost of Risk in bp	44	67
Global Banking and Investor Solutions	Net Cost Of Risk	9	342
	Gross loan Outstandings	154,651	158,064
	Cost of Risk in bp	2	87
Corporate Centre	Net Cost Of Risk	2	0
	Gross loan Outstandings	12,963	9,710
	Cost of Risk in bp	4	2
Societe Generale Group	Net Cost Of Risk	276	820
	Gross loan Outstandings	515,416	505,319
	Cost of Risk in bp	21	65

The gross coverage ratio for doubtful outstandings is calculated as the ratio of provisions recognised in respect of the credit risk to gross outstandings identified as in default within the meaning of the regulations, without taking account of any guarantees provided. This coverage ratio measures the maximum residual risk associated with outstandings in default ("doubtful").

7 – ROE, ROTE, RONE

The notions of ROE (Return on Equity) and ROTE (Return on Tangible Equity), as well as their calculation methodology, are specified on page 43 and 44 of Societe Generale's 2021 Registration Document. This measure makes it possible to assess Societe Generale's return on equity and return on tangible equity.
RONE (Return on Normative Equity) determines the return on average normative equity allocated to the Group's businesses, according to the principles presented on page 44 of Societe Generale's 2021 Registration Document.
Group net income used for the ratio numerator is book Group net income adjusted for "interest net of tax payable on deeply subordinated notes and undated subordinated notes, interest paid to holders of deeply subordinated notes and undated subordinated notes, issue premium amortisations" and "unrealised gains/losses booked under shareholders' equity, excluding conversion reserves" (see methodology note No. 10). For ROTE, income is also restated for goodwill impairment.

Details of the corrections made to book equity in order to calculate ROE and ROTE for the period are given in the table below:

ROTE calculation: calculation methodology

End of period	Q1 21	Q1 20
Shareholders' equity Group share	62,920	62,581
Deeply subordinated notes	(9,179)	(8,258)
Undated subordinated notes	(273)	(288)
Interest net of tax payable to holders of deeply subordinated notes & undated subordinated notes, interest paid to holders of deeply subordinated notes & undated subordinated notes, issue premium amortisations	(51)	1
OCI excluding conversion reserves	(723)	(648)
Dividend provision[(1)]	(353)	
ROE equity end-of-period	52,340	53,387
Average ROE equity	51,771	53,279
Average Goodwill	(3,928)	(4,561)
Average Intangible Assets	(2,506)	(2,369)
Average ROTE equity	45,337	46,349
Group net Income (a)	814	(326)
Underlying Group net income (b)	1,298	98
Interest on deeply subordinated notes and undated subordinated notes (c)	(144)	(159)
Cancellation of goodwill impairment (d)		
Ajusted Group net Income (e) = (a)+ (c)+(d)	670	(485)
Ajusted Underlying Group net Income (f)=(b)+(c)	1,154	(61)
Average ROTE equity (g)	45,337	46,349
ROTE [quarter: (4*e/g)]	5.9%	-4.2%
Underlying ROTE	45,821	46,773
Underlying ROTE [quarter: (4*f/h)]	10.1%	-0.5%

RONE calculation: Average capital allocated to Core Businesses (in EURm)

In EURm	Q1 21	Q1 20	Change
French Retail Banking	11,342	11,182	1.4%
International Retail Banking and Financial Services	9,963	10,563	-5.7%
Global Banking and Investor Solutions	14,271	13,615	4.8%
Core Businesses	35,576	35,360	0.6%
Corporate Center	16,195	17,919	-9.6%
Group	51,771	53,279	-2.8%

[(1)]The dividend to be paid is calculated based on a pay-out ratio of 50% of the underlying Group net income, excluding IFRIC 21, after deduction of deeply subordinated notes and on undated subordinated notes

8 – Net assets and tangible net assets

Net assets and tangible net assets are defined in the methodology, page 46 of the Group's 2021 Registration Document. The items used to calculate them are presented below.

End of period	Q1 21	2020	2019
Shareholders' equity Group share	62,920	61,684	63,527
Deeply subordinated notes	(9,179)	(8,830)	(9,501)
Undated subordinated notes	(273)	(264)	(283)
Interest, net of tax, payable to holders of deeply subordinated notes & undated subordinated notes, interest paid to holders of deeply subordinated notes & undated subordinated notes, issue premium amortisations	(51)	19	4
Bookvalue of own shares in trading portfolio	(25)	301	375
Net Asset Value	53,391	52,910	54,122
Goodwill	(3,927)	(3,928)	(4,510)
Intangible Assets	(2,527)	(2,484)	(2,362)
Net Tangible Asset Value	46,937	46,498	47,250
Number of shares used to calculate NAPS**	850,427	848,859	849,665
Net Asset Value per Share	62.8	62.3	63.7
Net Tangible Asset Value per Share	55.2	54.8	55.6

*** The number of shares considered is the number of ordinary shares outstanding as at March 31st, 2021, excluding treasury shares and buybacks, but including the trading shares held by the Group.*
In accordance with IAS 33, historical data per share prior to the date of detachment of a preferential subscription right are restated by the adjustment coefficient for the transaction.

9 – Calculation of Earnings Per Share (EPS)

The EPS published by Societe Generale is calculated according to the rules defined by the IAS 33 standard (see page 45 of Societe Generale's 2021 Registration Document). The corrections made to Group net income in order to calculate EPS correspond to the restatements carried out for the calculation of ROE and ROTE. As specified on page 45 of Societe Generale's 2021 Registration Document, the Group also publishes EPS adjusted for the impact of non-economic and exceptional items presented in methodology note No. 5 (underlying EPS).

The calculation of Earnings Per Share is described in the following table:

Average number of shares (thousands)	Q1 21	2020	2019
Existing shares	853,371	853,371	834,062
Deductions			
Shares allocated to cover stock option plans and free shares awarded to staff	3,728	2,987	4,011
Other own shares and treasury shares			149
Number of shares used to calculate EPS**	849,643	850,385	829,902
Group net Income	814	(258)	3,248
Interest on deeply subordinated notes and undated subordinated notes	(144)	(611)	(715)
Capital gain net of tax on partial buybacks			
Adjusted Group net income	670	(869)	2,533
EPS (in EUR)	0.79	(1.02)	3.05
Underlying EPS* (in EUR)	0.83	0.97	4.03

** Based on underlying Group net income excluding linearisation of the IFRIC 21 effect. EUR 1.36 including IFRIC 21 linearization.*
*** The number of shares considered is the number of ordinary shares outstanding as at March 31st, 2021, excluding treasury shares and buybacks, but including the trading shares held by the Group.*

10 – The Societe Generale Group's Common Equity Tier 1 capital is calculated in accordance with applicable CRR/CRD4 rules. The phased-in ratios include the earnings for the current financial year and the related provision for dividends. The difference between phased-in ratio and fully-loaded ratio is related to the IFRS 9 impacts. The leverage ratio is calculated according to applicable CRR/CRD4 rules including the provisions of the delegated act of October 2014 and the phased-in follows the same rationale as solvency ratios.

NB (1) The sum of values contained in the tables and analyses may differ slightly from the total reported due to rounding rules.

(2) All the information on the results for the period (notably: press release, downloadable data, presentation slides and supplement) is available on Societe Generale's website www.societegenerale.com in the "Investor" section.

Societe Generale

Societe Generale is one of the leading European financial services groups. Based on a diversified and integrated banking model, the Group combines financial strength and proven expertise in innovation with a strategy of sustainable growth, aiming to be the trusted partner for its clients, committed to the positive transformations of society and the economy.

Active in the real economy for over 150 years, with a solid position in Europe and connected to the rest of the world, Societe Generale has over 133,000 members of staff in 61 countries and supports on a daily basis 30 million individual clients, businesses and institutional investors around the world by offering a wide range of advisory services and tailored financial solutions. The Group is built on three complementary core businesses:

- **French Retail Banking**, which encompasses the Societe Generale, Crédit du Nord and Boursorama brands. Each offers a full range of financial services with omnichannel products at the cutting edge of digital innovation;
- **International Retail Banking, Insurance and Financial Services to Corporates**, with networks in Africa, Russia, Central and Eastern Europe and specialised businesses that are leaders in their markets;
- **Global Banking and Investor Solutions**, which offers recognised expertise, key international locations and integrated solutions.

Societe Generale is included in the principal socially responsible investment indices: DJSI (World and Europe), FTSE4Good (Global and Europe), Euronext Vigeo (World, Europe and Eurozone), four of the STOXX ESG Leaders indices, and the MSCI Low Carbon Leaders Index.

For more information, you can follow us on twitter @societegenerale or visit our website www.societegenerale.com

REGISTERED OFFICE OF THE ISSUER

SG Issuer
16, Boulevard Royal
L-2449 Luxembourg
Luxembourg

REGISTERED OFFICE OF THE GUARANTOR

Société Générale
29, boulevard Haussmann
75009 Paris
France

ISSUER'S AUDITORS

Ernst & Young Société Anonyme
35E, avenue John F. Kennedy
L-1855 Luxembourg
Luxembourg

GUARANTOR'S AUDITORS

Ernst & Young et Autres
Tour First
TSA 14444
92037 Paris-La Défense Cedex
France

Deloitte & Associés
6, place de la Pyramide
92908 Paris-La Défense Cedex
France

WARRANT AGENT

THE CENTRAL DEPOSITORY (PTE) LIMITED
11 North Buona Vista Drive
#06-07 The Metropolis Tower 2
Singapore 138589

LEGAL ADVISERS TO THE ISSUER
(as to Singapore law)

ALLEN & GLEDHILL LLP
One Marina Boulevard #28-00
Singapore 018989