

## **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).

**6,000,000 European Style Cash Settled Long Certificates relating to  
the ordinary shares of par value HK\$0.02 each of Geely Automobile Holdings Limited  
with a Daily Leverage of 5x**

**issued by**

**SG Issuer**

**(Incorporated in Luxembourg with limited liability)**

**unconditionally and irrevocably guaranteed by**

**Société Générale**

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**Issue Price: S\$0.40 per Certificate**

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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 21 June 2018 including such further base listing documents as may be issued from time to time (the “**Base Listing Document**”), as supplemented by an addendum to the Base Listing Document dated 5 November 2018 (the “**Addendum**”), 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).

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 a 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<sup>1</sup> and Specified Investment Products (SIPs)<sup>2</sup>, 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 21 June 2018 (the "**Guarantee**") and entered into by the Guarantor constitutes general unsecured 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 31 May 2019.

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.

30 May 2019

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<sup>1</sup> As defined in the Securities and Futures (Capital Markets Products) Regulations 2018.

<sup>2</sup> 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, the Base Listing Document and the Addendum 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, the Base Listing Document and the Addendum 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 Addendum. Terms not defined herein shall have the meanings ascribed thereto in the Conditions.

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## 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 general unsecured 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 fallen sharply on the Expiry Date;
- (d) 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;
- (e) 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 will be suspended for a similar period;
- (f) 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;
- (g) 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;
- (h) 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 28 to 32 and the examples and illustrations of adjustments set out in the "Information relating to the European Style Cash Settled Long Certificates on Single Equities" section of this document for more information;
- (i) 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;

- (j) 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);
- (k) 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 Strategy (as described below) including the Funding Cost (as defined below) and Rebalancing Cost (as defined below);
- (l) 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;

- (m) investors should note that there are leveraged risks because the Certificates integrate a 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;
- (n) 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 performance of the Underlying Stock over a period longer than one day. This difference may be amplified in a volatile market with a sideways trend, where market movements are not clear in direction, whereby investors may sustain substantial losses;
- (o) investors should note that the Air Bag Mechanism (as defined below) reduces the impact on the Leverage Strategy if the Underlying Stock falls further, but will also maintain a reduced exposure to the Underlying Stock in the event the Underlying Stock starts to rise after the Air Bag Mechanism is triggered, thereby reducing its ability to recoup losses;
- (p) 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 fall 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 fall in the price of the Underlying Stock of 20% or greater (comparative to the previous closing price of the Underlying Stock or the previous observed price in case of an air bag previously on the same day) during the Observation Period. Investors may refer to pages 47 to 48 of this document for more information;

- (q) 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 34 to 36 of this document for more information;
- (r) 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;
- (s) 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;
- (t) 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;

- (u) 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;

- (v) 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;

- (w) the Certificates are linked to the Underlying Stock and subject to the risk that the price of the Underlying Stock may decline. 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;

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

- (y) 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;

- (z) 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;

- (aa) 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;

- (bb) U.S. withholding tax

U.S. Treasury regulations issued under Section 871(m) of the U.S. Internal Revenue Code of 1986 ("**Section 871(m) Regulations**") generally impose a 30% withholding tax on dividend equivalents paid or deemed paid to a non-United States holder as defined pursuant to Section 871(m) Regulations (a "**Non-U.S. Holder**") with respect to certain financial instruments linked to U.S. equities (or other securities that can pay U.S.-source dividend income) or indices that include U.S. equities (or such securities) ("**U.S. Underlying Equities**"). The 30% withholding tax on dividend equivalents paid or deemed paid to Non-U.S. Holders may be reduced by an applicable tax treaty, eligible for credit against other U.S. tax liabilities or refunded, provided that the beneficial owner claims a credit or refund from the United States Internal Revenue Service ("**IRS**") in a timely manner, but the Issuer makes no assessment as to whether any such tax credits will be available to Non-U.S. Holders.

Specifically, Section 871(m) Regulations will generally apply to Certificates the pricing date of which occurs from 1 January 2017 and that substantially replicate the economic performance of one or more U.S. Underlying Equity(ies) as determined by the Issuer on the date for such Certificates as of which the expected delta of the product is determined by the Issuer (such date being the "pricing date") based on tests in accordance with the applicable Section 871(m) Regulations (for the purposes of the relevant notices describing these rules, such Certificates are deemed "delta-one" instruments) ("**Specified Securities**"). If one or more of the U.S. Underlying Equities are expected to pay dividends during the term of the Specified Securities, withholding generally will still be required even if the Specified Security does not provide for payments explicitly linked to dividends. Even where a Certificate is a Specified Security, no tax should be imposed under Section 871(m) as long as either (1) no dividend is paid with respect to any U.S. Underlying Equity during the term of the Certificates or (2) both (x) no additional amount is paid to the holder of a Certificate in respect of any such dividend and (y) as estimated by the Issuer (with the meaning of Treas. Reg. § 1.871-15(i)(2)(iii)) at the time of issuance the amount of all such dividends will be zero (Zero Estimated Dividends Securities). In such case, the Issuer will estimate the amount of dividends to be paid with respect to U.S. Underlying Equities for all periods during the term of the Certificates to be zero and will not make any adjustments for dividends, including extraordinary dividends, that are taxable as dividend for U.S. federal income tax purposes, and thus there should be no tax

imposed under section 871(m) on the Certificates even if one or more dividends are paid with respect to a U.S. Underlying Equity.

In withholding this tax, the Issuer will regularly apply the general tax rate of 30% to the payments subject to U.S. provisions (or amounts deemed payments) without regard to any applicable treaty rate. Therefore, in such cases, an investor's individual tax situation will not be taken into account. Certificates linked to U.S. Underlying Equities which the Issuer has determined not to be a Specified Security will not be subject to withholding tax under Section 871(m) Regulations.

The Issuer has determined that generally Certificates should not be linked to US Underlying Equities and should not be "delta-one" transactions within the meaning of the relevant notices and, therefore, should not be Specified Securities subject to withholding tax under Section 871(m) Regulations. Investors are advised that the Issuer's determination is binding on all Non-U.S. Holders of the Certificates, but it is not binding on the IRS and the IRS may therefore disagree with the Issuer's determination.

The rules of Section 871(m) Regulations require complex calculations in respect of the instruments that include U.S. Underlying Equities and application of these rules to a specific issue of Certificates may be uncertain. **Consequently the IRS may determine they are to be applied even if the Issuer initially assumed the rules would not apply. There is a risk in such case that holders of the Certificates are subject to withholding tax ex post.**

As neither the Issuer nor the withholding agent will be required to gross up any amounts withheld in connection with a Specified Security, holders will receive smaller payments in such case than they would have received without withholding tax being imposed.

**Investors should consult their tax adviser regarding the potential application of Section 871(m) Regulations to their investment in the Certificates; and**

(cc) risk factors relating to the BRRD

*French 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. As a Directive, the BRRD is not directly applicable in France and had to be transposed into national legislation. The French ordonnance No. 2015-1024 of 20 August 2015 transposed the BRRD into French law and amended the French Code monétaire et financier for this purpose. The French ordonnance has been ratified by law no. 2016-1691 dated 9 December 2016 (Loi n°2016-1691 du 9 décembre 2016 relative à la transparence, à la lutte contre la corruption et à la modernisation de la vie économique) which also incorporates provisions which clarify the implementation of the BRRD.

The stated aim of the BRRD and Regulation (EU) No. 806/2014 of the European Parliament and of the Council of the European Union of 15 July 2014 (the "**SRM Regulation**") is to provide for the establishment of an EU-wide framework for the recovery and resolution of credit institutions, investment firms, certain financial institutions and certain holding companies (each a relevant entity). The regime provided for by the BRRD is, among other things, stated to be needed to provide the 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 relevant entity so as to ensure the continuity of the relevant entity's critical financial and economic functions while minimising the impact of a relevant entity'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 Single Resolution Board (the "**SRB**") and to the national resolution authorities.

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 relevant entity under resolution in accordance with a set order of priority (the "**Bail-in Tool**").

The conditions for resolution under the French Code monétaire et financier implementing the BRRD are deemed to be met when: (i) the Resolution Authority or the relevant supervisory authority determines that the relevant entity 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 minimising reliance on extraordinary public financial support, and protecting client funds and assets) and winding up of the relevant entity 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 where the conditions for resolution are met, write-down or convert capital instruments (including subordinated debt instruments) into equity when it determines that the relevant entity or its group will no longer be viable unless such write down or conversion power is exercised or when the relevant entity requires extraordinary public financial support (except when extraordinary public financial support is provided in the form defined in Article L. 613-48 III, 3° of the French Code monétaire et financier).

The Bail-in Tool or the exercise of write-down/conversion powers by the Resolution Authority with respect to capital instruments (including subordinated debt instruments) 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 resolutions measures, including the Bail-in Tool. In addition, if the Issuer's or the Guarantor's financial condition deteriorates, the existence of the Bail-in Tool could cause the market price or value of the Certificates to decline more rapidly than would be the case in the absence of such power.

In addition to the Bail-in Tool, the BRRD provides the Resolution Authority with broader powers to implement other resolution measures with respect to relevant entities that meet the conditions for resolution, which may include (without limitation) the sale of the relevant entity'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 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.

Since 1 January 2016, French credit institutions (such as the Issuer and the Guarantor) have to meet, at all times, a minimum requirement for own funds and eligible liabilities (“**MREL**”) pursuant to Article L. 613-44 of the French Code monétaire et financier. The MREL, which is expressed as a percentage of the total liabilities and own funds of the institution, aims at avoiding institutions to structure their liabilities in a manner that impedes the effectiveness of the Bail-in Tool. From January 2019, G-SIBs (global systemically important banks) such as the Issuer and the Guarantor will also have to comply with the total loss absorbing capacity (TLAC) requirements.

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 banks’ resolution plans have applied since 1 January 2015 and the SRM has been fully operational since 1 January 2016.

The application of any resolution measure under the French BRRD implementing provisions 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 the 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 Tool or the exercise of write-down/conversion powers by the Resolution Authority independently of a resolution measure with respect to capital instruments (including subordinated debt instruments) or in combination with a resolution measure when it determines that the institution or its 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.

#### *Implementation of BRRD in Luxembourg*

The BRRD was implemented by the Luxembourg act dated 18 December 2015 (the “**BRR Act 2015**”). Under the BRR Act 2015, the competent authority is the CSSF and the resolution authority is the CSSF acting as Resolution Council (le Conseil de *résolution*).

The BRR Act 2015 provides for certain resolution measures, including the power to impose in certain circumstances a suspension of activities. Any suspension of activities can, to the extent determined by the CSSF, result in the partial or complete suspension of the performance of agreements entered into by a Luxembourg incorporated credit institution or investment firm. The BRR Act 2015 also grants the power to the Resolution Council to take a number of resolution measures including (i) a forced sale of a Luxembourg incorporated credit institution or investment firm (sale of business), (ii) the establishment of a bridge institution or, (iii) the forced transfer of all or part of the assets, rights or obligations of a Luxembourg incorporated credit institution or investment firm (asset separation) and (iv) the application of the general bail-in tool. The powers set out in the BRR Act 2015 will impact how credit

institutions, investment firms or relevant financial institutions (such as SG Issuer) established in Luxembourg, are managed as well as, in certain circumstances, the rights of creditors.

If the general bail-in tool and the statutory write-down and conversion power become applicable to SG Issuer, the Certificates may be subject to write-down or conversion into equity (ordinary shares or other instrument of ownership) on any application of the bail-in tool, which may result in such Certificates' holders losing some or all of their investment (notably, the amount of the outstanding may be reduced, including to zero). Subject to certain conditions, the terms of the obligations owed under the Certificates may also be varied by the Resolution Council (e.g. as to maturity, interest and interest payment dates). The exercise of any power under the BRR Act 2015 or any suggestion of such exercise could materially adversely affect the rights of the holders of the Certificates, the price or value of their investment in any Certificates and/or the ability of SG Issuer to satisfy its obligations under any Certificate.

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 significant credit institutions and financial groups, in the framework of a Single Resolution Mechanism and a Single Resolution Fund, established a centralised power of resolution and entrusted to a Single Resolution Board and to the national resolution authorities of participating EU Member States (including Luxembourg and the CSSF through the Resolution Council). Since 1 January 2015, the Single Resolution Board works in close cooperation with the Resolution Council, in particular in relation to the elaboration of resolution planning, and has assumed full resolution powers since 1 January 2016.

## 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, the Base Listing Document and the Addendum.*

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 Addendum. For the purposes of the Conditions, the following terms shall have the following meanings:

Certificates:	6,000,000 European Style Cash Settled Long Certificates relating to the ordinary shares of par value HK\$0.02 each of Geely Automobile Holdings Limited (the “ <b>Underlying Stock</b> ”)
Company:	Geely Automobile Holdings Limited (RIC: 0175.HK)
Underlying Price <sup>3</sup> and Source:	HK\$12.82 (Reuters)
Calculation Agent:	Société Générale
Strike Level:	Zero
Daily Leverage:	5x (within the Leverage Strategy as described below)
Notional Amount per Certificate:	SGD 0.40
Management Fee (p.a.) <sup>4</sup> :	0.40%
Gap Premium (p.a.) <sup>5</sup> :	6.90%, is a hedging cost against extreme market movements overnight.
Funding Cost <sup>6</sup> :	The annualised costs of funding, referencing a publically published interbank offered rate plus spread.
Rebalancing Cost <sup>6</sup> :	The transaction costs (if applicable), computed as a function of leverage and daily performance of the Underlying Stock.
Launch Date:	24 May 2019
Closing Date:	30 May 2019
Expected Listing Date:	31 May 2019

<sup>3</sup> These figures are calculated as at, and based on information available to the Issuer on or about 30 May 2019. 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 30 May 2019.

<sup>4</sup> 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.

<sup>5</sup> Please note that the Gap Premium is calculated on a 360-day basis.

<sup>6</sup> These costs are embedded within the Leverage Strategy.

Last Trading Date:	The date falling 5 Business Days immediately preceding the Expiry Date, currently being 23 May 2022
Expiry Date:	30 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:	27 May 2022 or if such day is not an Exchange Business Day, the immediately preceding Exchange Business Day.
Exercise:	<p>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.</p>
Cash Settlement Amount:	<p>In respect of each Certificate, shall be an amount payable in the Settlement Currency equal to:</p> <p>Closing Level multiplied by the Notional Amount per Certificate</p> <p>Please refer to the “Information relating to the European Style Cash Settled Long Certificates on Single Equities” section on pages 39 to 53 of this document for examples and illustrations of the calculation of the Cash Settlement Amount.</p>
Hedging Fee Factor:	<p>In respect of each Certificate, shall be an amount calculated as: Product (for t from 1 to Valuation Date) of <math>(1 - \text{Management Fee} \times (\text{ACT}(t-1;t) \div 360)) \times (1 - \text{Gap Premium}(t-1) \times (\text{ACT}(t-1;t) \div 360))</math>, where:</p> <p>“t” refers to “<b>Observation Date</b>” which means each Underlying Stock Business Day from (and including) the Underlying Stock Business Day immediately preceding the Expected Listing Date to the Valuation Date; and</p>



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).

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 Long Certificates on Single Equities” section on pages 39 to 53 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 Strategy (as described below) on the Valuation Date

The calculation of the closing level of the Leverage Strategy is set out in the “Specific Definitions relating to the Leverage Strategy” section on pages 19 to 23 below.

Initial Exchange Rate<sup>3</sup>: 0.1758

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 Strategy and which is designed to reduce the Leverage Strategy exposure to the Underlying Stock during extreme market conditions. If the Underlying Stock falls by 15% or more (“**Air Bag Trigger Price**”) during the trading day (which represents approximately 75% loss after a 5 times leverage), the Air Bag Mechanism is triggered and the Leverage Strategy is adjusted intra-day. The Air Bag Mechanism reduces the impact on the Leverage Strategy if the Underlying Stock falls further, but will also maintain a reduced exposure to the Underlying Stock in the event the Underlying Stock starts to rise 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 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 21 to 23 below and the “Description of Air Bag Mechanism” section on pages 45 to 46 of this document for further information of the Air Bag Mechanism.

Underlying Stock Currency:	Hong Kong Dollar (“ <b>HKD</b> ”)
Settlement Currency:	Singapore Dollar (“ <b>SGD</b> ”)
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 (“ <b>SGX-ST</b> ”)
Relevant Stock Exchange for the Underlying Stock:	HKEX
Business Day and Exchange Business Day:	<p>A “<b>Business Day</b>” 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.</p> <p>An “<b>Exchange Business Day</b>” 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.</p>
Warrant Agent:	The Central Depository (Pte) Limited (“ <b>CDP</b> ”)
Clearing System:	CDP
Fees and Charges:	<p>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.</p>

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 Strategy including the Funding 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](http://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 Strategy**

#### **Description of the Leverage Strategy**

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

At the end of each trading day of the Underlying Stock, the exposure of the Leverage Strategy to the Underlying Stock is reset within the Leverage Strategy in order to retain a daily leverage of 5 times the 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 Strategy incorporates an air bag mechanism which is designed to reduce exposure to the Underlying Stock during extreme market conditions, as further described below.

#### **Leverage Strategy Formula**

**LSL<sub>t</sub>** means, for any Observation Date(t), the Leverage Strategy Closing Level as of such day (t).

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

On Observation Date(1):

$$LSL_1 = 1000$$

On each subsequent Observation Date(t):

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

**LR<sub>t-1,t</sub>** means the Leveraged Return of the Underlying Stock between Observation Date(t-1) and Observation Date(t) closing prices, calculated as follows:

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

**FC<sub>t-1,t</sub>** means, the Funding Cost between Observation Date(t-1) (included) and Observation Date(t) (excluded) calculated as follows :

$$FC_{t-1,t} = (\text{Leverage} - 1) \times \frac{\text{Rate}_{t-1} \times \text{ACT}(t-1, t)}{\text{DayCountBasisRate}}$$

<b>RC<sub>t-1,t</sub></b>	<p>means the Rebalancing Cost of the Leverage Strategy on Observation Date (t), calculated as follows :</p> $RC_{t-1,t} = \text{Leverage} \times (\text{Leverage} - 1) \times \left( \left  \frac{S_t}{S_{t-1} \times Rfactor_t} - 1 \right  \right) \times TC$
<b>TC</b>	<p>means the Transaction Costs applicable (including Stamp Duty) that are equal to :</p> <p>0.10%</p>
<b>Leverage</b>	5
<b>S<sub>t</sub></b>	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.
<b>Rate<sub>t</sub></b>	<p>means, in respect of each Observation Date(t), a rate calculated as of such day in accordance with the following formula:</p> $Rate_t = \text{CashRate}_t + \%SpreadLevel_t$
<b>Rfactor<sub>t</sub></b>	<p>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 :</p> $Rfactor_t = 1 - \frac{Div_t}{S_{t-1}}$ <p>where</p> <p><i>Div<sub>t</sub></i> is the dividend to be paid out in respect of the Underlying Stock and the relevant ex-dividend date which shall be considered net of any applicable withholding taxes.</p>
<b>CashRate<sub>t</sub></b>	means, in respect of each Observation Date(t), the Overnight HKD Hong Kong Interbank Offered Rate (HIBOR) Fixing, as published on Reuters RIC H1HKDOND= or any successor page.
<b>%SpreadLevel<sub>t</sub></b>	<p>means, in respect of each Observation Date(t), a rate which shall be determined with respect to such Valuation Date(t) by the Calculation Agent as the difference between (1) the 12-month HKD Hong Kong Interbank Offered Rate (HIBOR) Fixing, as published on Reuters RIC H1HKD1YD= and (2) Overnight HKD Hong Kong Interbank Offered Rate (HIBOR) Fixing, as published on Reuters RIC H1HKDOND= or any successor page.</p> <p>Provided that if such difference is negative, %SpreadLevel<sub>t</sub> should be 0%.</p>
<b>ACT(t-1,t)</b>	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).
<b>DayCountBasisRate</b>	365

**Extraordinary Strategy Adjustment for Performance Reasons (“Air Bag Mechanism”)**

**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 Strategy Closing Level on the Intraday Restrike Date ( $LSL_{IRD}$ ) should be computed as follows :

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

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

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

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

(1) for  $k = 1$  :

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

(2) for  $k > 1$  :

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

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

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

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

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

**$IS_{IR(k)}$**  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 lowest 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<sup>th</sup> 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 decrease at any Calculation Time of the Underlying Stock price by 15% or more compared with the relevant Underlying Stock Price  $IS_{IR(0)}$  as of such Calculation Time.

(2) if k Intraday Restrike Events have occurred on the relevant Intraday Restrike Date, the decrease at any Calculation Time of the Underlying Stock price by 15% or more compared with the relevant Underlying Stock Price  $IS_{IR(k)}$  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 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 Addendum 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 21 June 2018, 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) or the Regulator (as defined below), 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 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 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

- (ii) that the 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.

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

**“Bail-In Power”** means any power existing from time to time under any laws, regulations, rules or requirements in effect in France, relating to the transposition of 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, the **“BRRD”**), including without limitation pursuant to French decree-law No. 2015-1024 dated 20 August 2015 (*Ordonnance portant diverses dispositions d'adaptation de la législation au droit de l'Union européenne en matière financière*) (as amended from time to time, the **“20 August 2015 Decree Law”**), 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 and a Single Resolution Fund and amending Regulation (EU) No 1093/2010 (as amended from time to time, the **“Single Resolution Mechanism Regulation”**), or otherwise arising under French law, and in each case the instructions, rules and standards created thereunder, pursuant to which the obligations of a Regulated Entity (or an affiliate of such Regulated Entity) can be reduced (in part or in whole), cancelled, suspended, transferred, varied or otherwise modified in any way, or securities of a Regulated Entity (or an affiliate of such Regulated Entity) can be converted into shares, other securities, or other obligations of such Regulated Entity or any other person, whether in connection with the implementation of a bail-in tool following placement in resolution or otherwise.

**“Regulated Entity”** means any entity referred to in Section I of Article L.613-34 of the French *Code monétaire et financier* as modified by the 20 August 2015 Decree Law, which includes certain credit institutions, investment firms, and certain of their parent or holding companies established in France.

**“Relevant Resolution Authority”** means the *Autorité de contrôle prudentiel et de résolution* (the ACPR), the Single Resolution Board established pursuant to the Single Resolution Mechanism Regulation, and/or any other authority entitled to exercise or participate in the exercise of any Bail-in Power from time to time (including the Council of the European Union and the European Commission when acting pursuant to Article 18 of the Single Resolution Mechanism Regulation).

**“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.

No repayment or payment of the Amounts Due will become due and payable or be paid after the exercise of the Bail-in Power by the Relevant Resolution Authority or the Regulator with respect to the Issuer 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 under the laws and regulations in effect in France and the European Union applicable to the Issuer or other members of its group.

Upon the exercise of any Bail-in Power by the Relevant Resolution Authority or the Regulator with respect to the Certificates, the Issuer will provide a written notice to the Certificate Holders in accordance with Condition 9 as soon as practicable regarding such exercise of the Bail-in Power. Any delay or failure by the Issuer to give notice shall not affect the validity and enforceability of the Bail-in Power 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 another person, as a result of the exercise of the Bail-in Power by the Relevant Resolution Authority or the Regulator with respect to the Issuer, nor the exercise of any Bail-in Power by the Relevant Resolution Authority or the Regulator 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.

If the Relevant Resolution Authority or the Regulator exercises the Bail-in Power with respect to less than the total Amounts Due, unless otherwise instructed by the Issuer or the Relevant Resolution Authority or the Regulator, any cancellation, write-off or conversion made in respect of the Certificates pursuant to the Bail-in Power will be made on a pro-rata basis.

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 and each Certificate Holder. No expenses necessary for the procedures under this Condition, including, but not limited to, those incurred by the Issuer, shall be borne by any Certificate Holder.

## 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 a Market Disruption Event has occurred, then that Valuation Date shall be postponed until the first succeeding Exchange Business Day on which there is no Market Disruption Event, unless there is a Market Disruption Event on each of the five Exchange Business Days immediately following the original date that, but for the Market Disruption Event, would have been a Valuation Date. In that case:-

- (i) that fifth Exchange Business Day shall be deemed to be the Valuation Date

notwithstanding the Market Disruption Event; and

- (ii) the Issuer shall determine the Final Reference Level on the basis of its good faith estimate of the Final Reference Level that would have prevailed on that fifth Exchange Business Day but for the Market Disruption Event.

**"Market Disruption Event"** means the occurrence or existence on the Valuation Date 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.

## **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(c).

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 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(c) 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.
- (c) *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 or impracticability 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, the Base Listing Document and the Addendum. Terms used in this Summary are defined in the Conditions.*

Issuer:	SG Issuer
Company:	Geely Automobile Holdings Limited
The Certificates:	European Style Cash Settled Long Certificates relating to the Underlying Stock
Number:	6,000,000 Certificates
Form:	The Certificates will be issued subject to, and with the benefit of, a master instrument by way of deed poll dated 21 June 2018 (the “ <b>Master Instrument</b> ”) and executed by the Issuer and the Guarantor and a master warrant agent agreement dated 29 May 2017 (the “ <b>Master Warrant Agent Agreement</b> ”) 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 31 May 2019.
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 qualified in its entirety by reference to the detailed information appearing elsewhere in this document, the Base Listing Document and the Addendum.

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

### What are European Style Cash Settled Long Certificates on Single Equities?

European style cash settled long 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 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 increase and are seeking short-term leveraged 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) For Certificate Holders who trade the Certificates intraday: 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) For Certificate Holders who hold the Certificates overnight: 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 Strategy including the Funding Cost and Rebalancing Cost.

### Illustration of the Calculation of Hedging Fee Factor

Hedging Fee Factor	=	Product of the Daily Fees
--------------------	---	---------------------------

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

Value of Certificates	=	<table border="1"> <tr><td>t=0</td></tr> <tr><td>Notional Amount</td></tr> </table>	t=0	Notional Amount	x	<table border="1"> <tr><td>t=1</td></tr> <tr> <td>Leverage Strategy daily performance<sup>8</sup></td> <td>x</td> <td>Daily Fees</td> </tr> </table>	t=1	Leverage Strategy daily performance <sup>8</sup>	x	Daily Fees	x	<table border="1"> <tr><td>t=2</td></tr> <tr> <td>Leverage Strategy daily performance</td> <td>x</td> <td>Daily Fees</td> </tr> </table>	t=2	Leverage Strategy daily performance	x	Daily Fees	x ...	<table border="1"> <tr><td>t=i</td></tr> <tr> <td>Leverage Strategy Daily performance</td> <td>x</td> <td>Daily Fees</td> </tr> </table>	t=i	Leverage Strategy Daily performance	x	Daily Fees
			t=0																			
Notional Amount																						
t=1																						
Leverage Strategy daily performance <sup>8</sup>	x	Daily Fees																				
t=2																						
Leverage Strategy daily performance	x	Daily Fees																				
t=i																						
Leverage Strategy Daily performance	x	Daily Fees																				

Value of Certificates	=	<table border="1"> <tr><td>t=0</td></tr> <tr><td>Notional Amount</td></tr> </table>	t=0	Notional Amount	x	<table border="1"> <tr><td colspan="2"><b>Product of the daily Leverage Strategy Performance</b></td></tr> <tr> <td>Leverage Strategy daily performance</td> <td>x</td> <td>Leverage Strategy daily performance</td> </tr> </table>	<b>Product of the daily Leverage Strategy Performance</b>		Leverage Strategy daily performance	x	Leverage Strategy daily performance	x	<table border="1"> <tr><td colspan="2"><b>Product of the Daily Fees (Hedging Fee Factor)</b></td></tr> <tr> <td>Daily Fees</td> <td>x</td> <td>Daily Fees</td> </tr> </table>	<b>Product of the Daily Fees (Hedging Fee Factor)</b>		Daily Fees	x	Daily Fees
			t=0															
Notional Amount																		
<b>Product of the daily Leverage Strategy Performance</b>																		
Leverage Strategy daily performance	x	Leverage Strategy daily performance																
<b>Product of the Daily Fees (Hedging Fee Factor)</b>																		
Daily Fees	x	Daily Fees																

Final Value of Certificates	=	<table border="1"> <tr><td>t=0</td></tr> <tr><td>Notional Amount</td></tr> </table>	t=0	Notional Amount	x	<table border="1"> <tr> <td>Final Reference Level x Final Exchange Rate</td> <td>÷</td> <td>Initial Reference Level x Initial Exchange Rate</td> </tr> </table>	Final Reference Level x Final Exchange Rate	÷	Initial Reference Level x Initial Exchange Rate	x	<table border="1"> <tr><td>Hedging Fee Factor</td></tr> </table>	Hedging Fee Factor
			t=0									
Notional Amount												
Final Reference Level x Final Exchange Rate	÷	Initial Reference Level x Initial Exchange Rate										
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.

<sup>7</sup> “t” refers to “**Observation Date**” which means each Underlying Stock Business Day from (and including) the Underlying Stock Business Day immediately preceding the Expected Listing Date to the Valuation Date.

<sup>8</sup> Leverage Strategy daily performance is computed as the Leverage Strategy Closing Level on Business Day (t) divided by the Leverage 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:	Ordinary shares of par value HK\$0.02 each of Geely Automobile Holdings Limited
Expected Listing Date:	<b>03/07/2018</b>
Expiry Date:	<b>18/07/2018</b>
Initial Reference Level:	<b>1,000</b>
Initial Exchange Rate:	<b>1</b>
Final Reference Level:	<b>1,200</b>
Final Exchange Rate:	<b>1</b>
Issue Price:	<b>0.40 SGD</b>
Notional Amount per Certificate:	<b>0.40 SGD</b>
Management Fee (p.a.):	<b>0.40%</b>
Gap Premium (p.a.):	<b>6.90%</b>
Strike Level:	<b>Zero</b>

### Hedging Fee Factor

Hedging Fee Factor on the  $n^{\text{th}}$  Underlying Stock Business Day after issuance of Certificate ("HFF (n)") is calculated as follows:

$$\text{HFF}(0) = 100\%$$

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

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

$$\text{HFF}(1) = 100\% \times \left(1 - 0.40\% \times \frac{1}{360}\right) \times \left(1 - 6.90\% \times \frac{1}{360}\right)$$

$$\text{HFF}(1) = 100\% \times 99.9989\% \times 99.9808\% \approx 99.9797\%$$

Assuming 2<sup>nd</sup> Underlying Stock Business Day falls 3 Calendar Days after 1<sup>st</sup> Underlying Stock Business Day:

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

$$\text{HFF (2)} = 99.9797\% \times \left(1 - 0.40\% \times \frac{3}{360}\right) \times \left(1 - 6.90\% \times \frac{3}{360}\right)$$

$$\text{HFF (2)} = 99.9797\% \times 99.9967\% \times 99.9425\% \approx 99.9189\%$$

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 99.6963% as illustrated below:

Date	HFF
3/7/2018	100.0000%
4/7/2018	99.9797%
5/7/2018	99.9594%
6/7/2018	99.9392%
9/7/2018	99.8784%
10/7/2018	99.8581%
11/7/2018	99.8379%
12/7/2018	99.8176%
13/7/2018	99.7974%
16/7/2018	99.7367%
17/7/2018	99.7165%
18/7/2018	99.6963%

### 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

$$= [(1200 \times 1) / (1000 \times 1) - 0] \times 99.6963\%$$

$$= 119.64\%$$

Cash Settlement Amount = Closing Level x Notional Amount per Certificate

$$= 119.64\% \times 0.40 \text{ SGD}$$

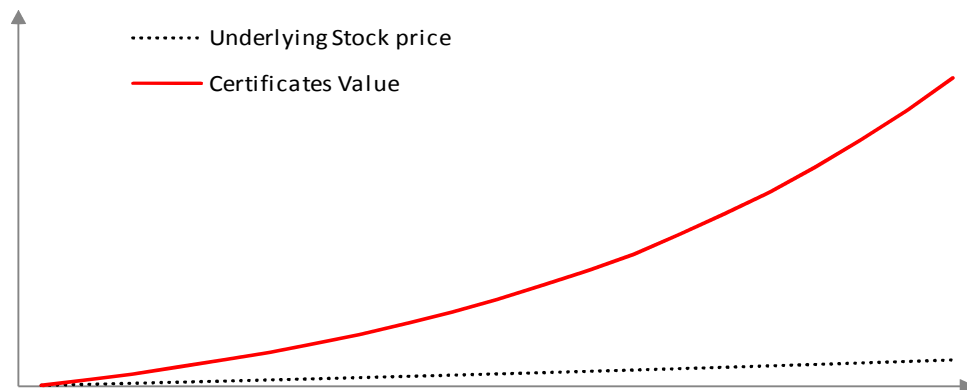
$$= \mathbf{0.479 \text{ SGD}}$$

## Illustration on how returns and losses can occur under different scenarios

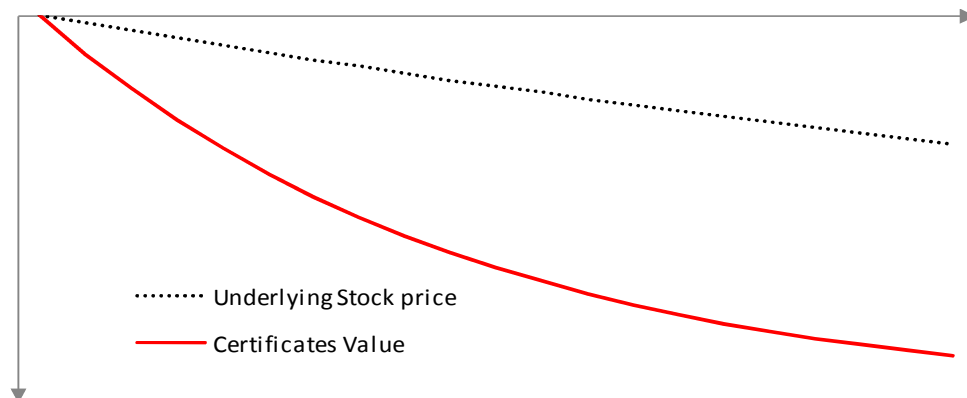
The examples are purely hypothetical and do not take fees and charges payable by investors into consideration. The examples highlight the effect of the Underlying Stock performance on the value of the Certificates and do not take into account the possible influence of fees, exchange rates, dividends,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

### 1. Illustrative examples

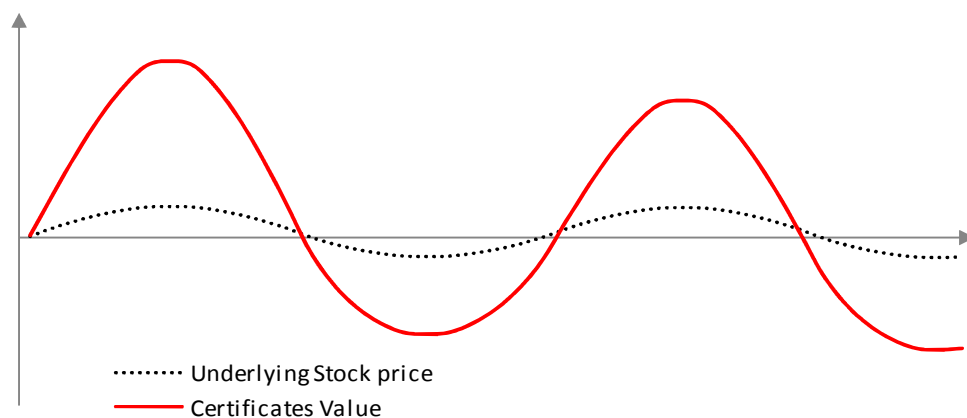
#### Scenario 1 – Upward Trend



#### Scenario 2 – Downward Trend



#### Scenario 3 – Volatile Market



## 2. Numerical Examples

### 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	0.40	0.44	0.48	0.53	0.59	0.64
Accumulated Return		10.00%	21.00%	33.10%	46.41%	61.05%

### 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	0.40	0.36	0.32	0.29	0.26	0.24
Accumulated Return		-10.00%	-19.00%	-27.10%	-34.39%	-40.95%

### 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	0.40	0.44	0.40	0.44	0.39	0.43
Accumulated Return		10.00%	-1.00%	8.90%	-1.99%	7.81%

## 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 minimum price is recorded; and
- Reset Period: after 15 minutes, the Leverage Strategy is reset using the minimum 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 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.

### Air Bag Mechanism timeline

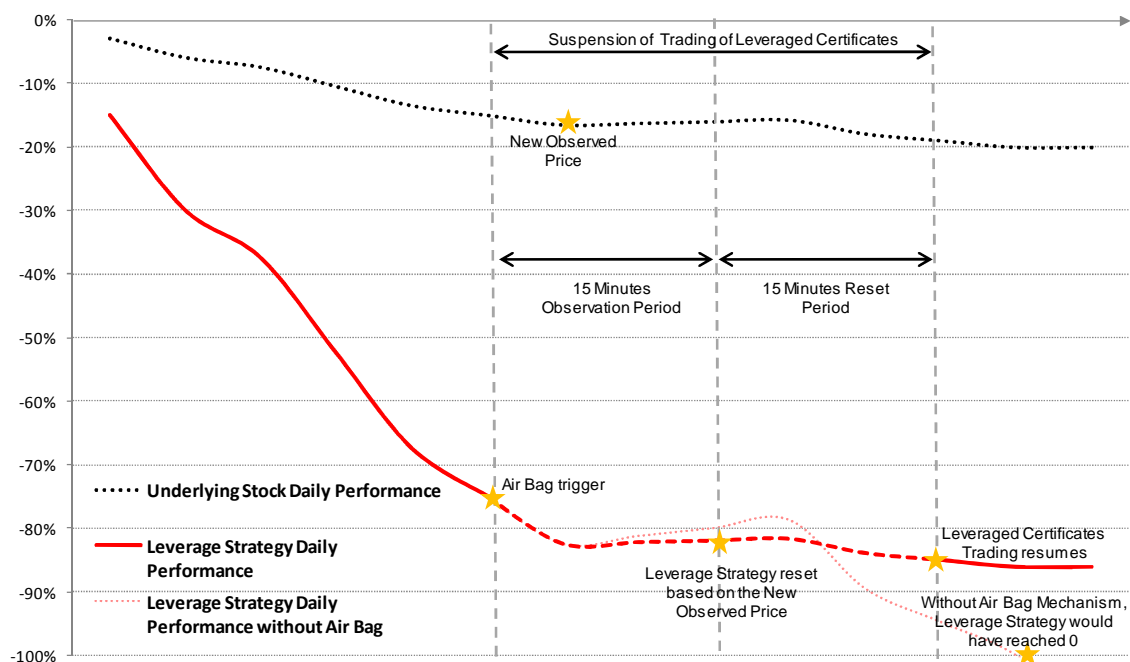
Air Bag Trigger	Observation Period	Resumption of Trading
More than 45 minutes before Market Close	First 15 minutes after Air Bag Trigger	Trading resumes the same day between 30 and 45 minutes after Air Bag Trigger
45 minutes before Market Close		Next trading day at Market Open
30 to 45 minutes before Market Close		
30 minutes before Market Close		
15 to 30 minutes before Market Close		
15 minutes before Market Close	From Air Bag Trigger to Market Close	
Less than 15 minutes before Market Close		

With **Market Close** defined as:

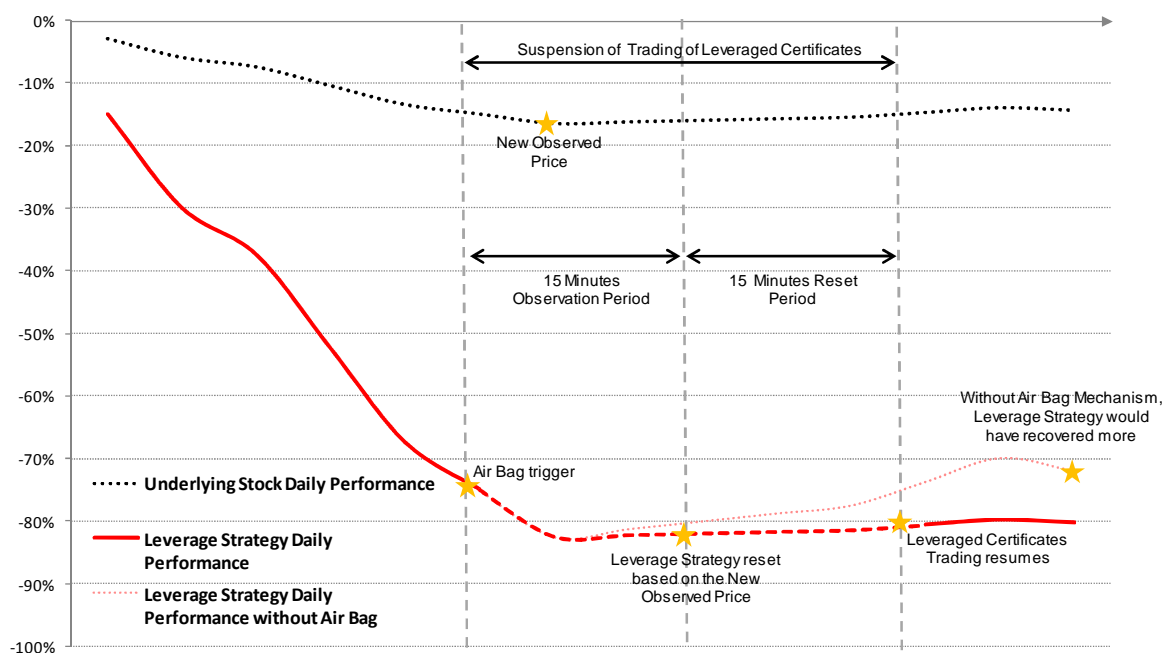
- Underlying Stock closing time with respect to the Observation Period
- The sooner between Underlying Stock closing time and SGX closing time with respect to the Resumption of Trading

## Illustrative examples of the Air Bag Mechanism

### Scenario 1 – Downward Trend after Air Bag trigger



### Scenario 2 – Upward Trend after Air Bag trigger

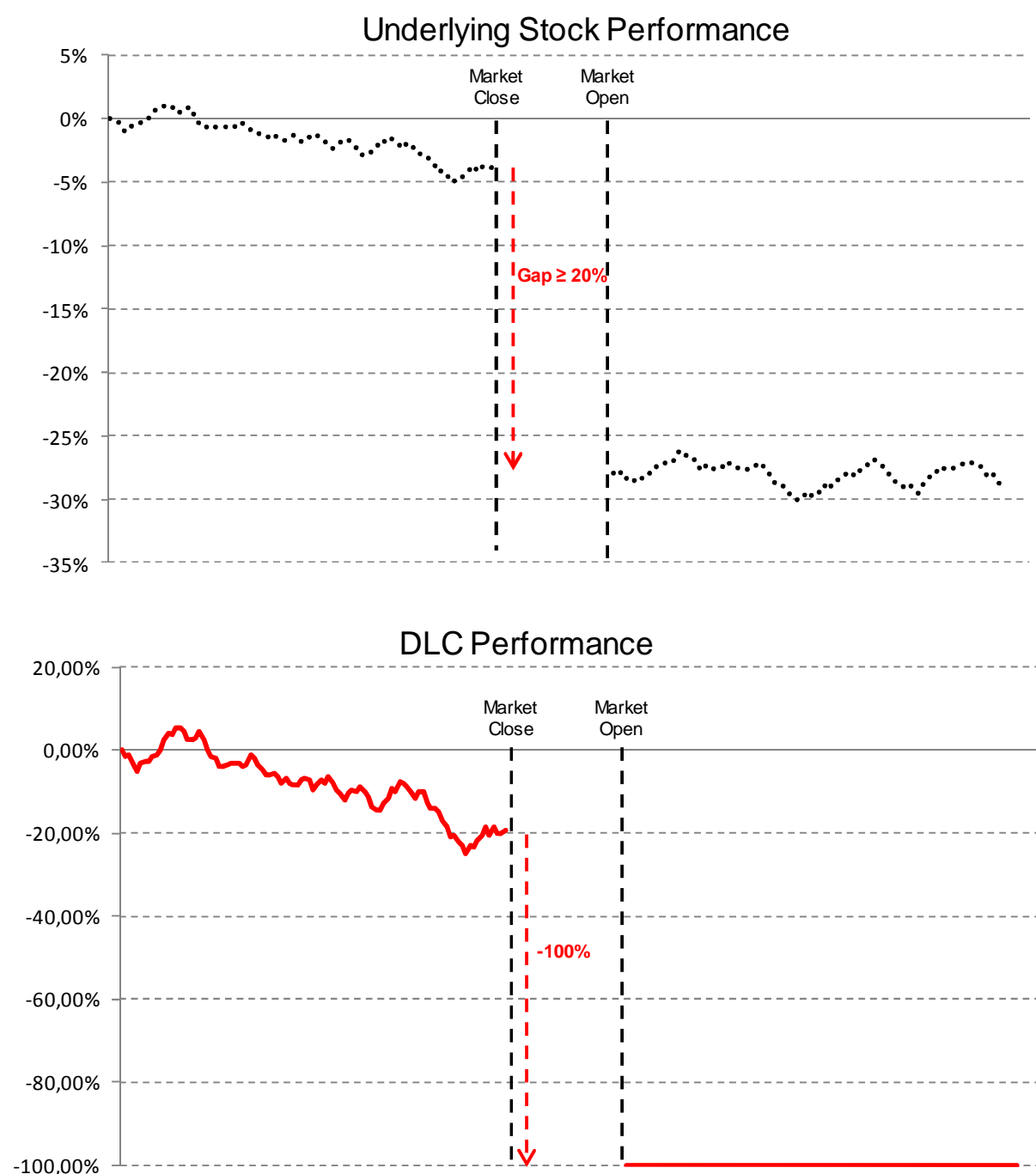


## Scenarios where the investor may lose the entire value of the investment

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.

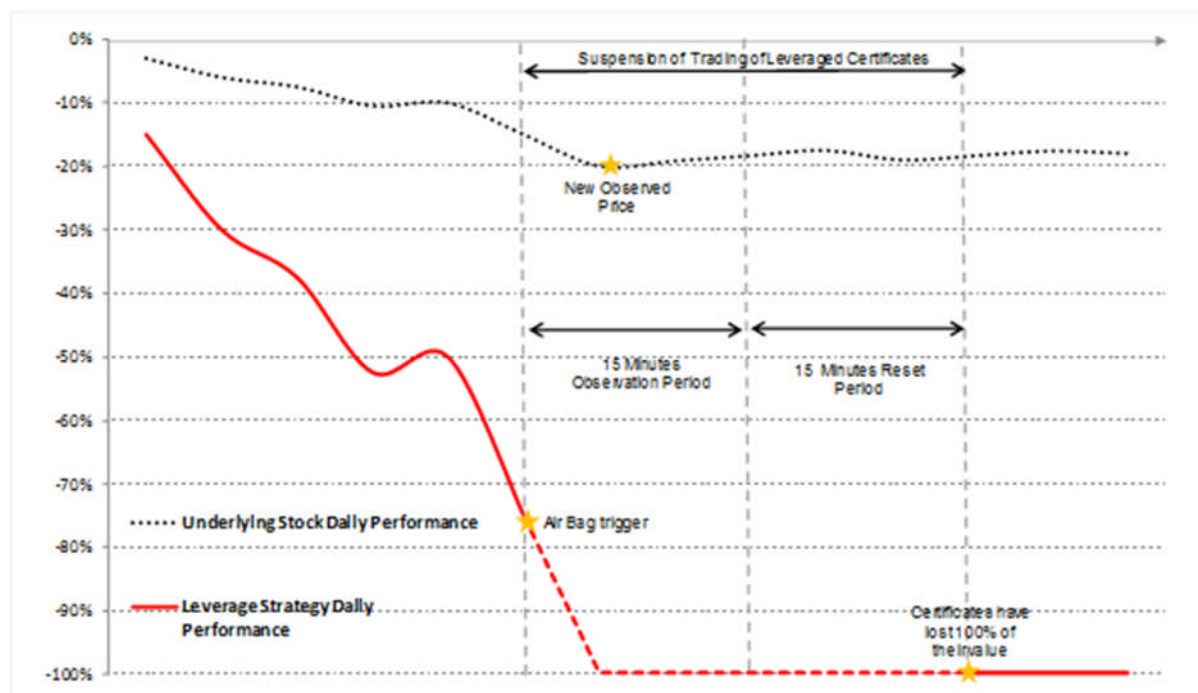
### Scenario 1 – Overnight fall of the Underlying Stock

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 below 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 fall 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 falls by 20% or more compared to the previous closing price of the Underlying Stock or the previous observed price in case of an air bag previously on the same day within the 15 minute Observation Period. 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 :

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

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 falls by 15% exclusively because of the dilutive effect of a corporate action.

Where:

$DivExc_t$  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. Stock split

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

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

$$S_t = \$51$$

$$Div_t = \$0$$

$$DivExc_t = \$0$$

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:

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

$S_{t-1}$	$S_{t-1} \times Rfactor_t$	$S_t$	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)
0.40	0.44	10%

In such case an Intraday Restrike Event would occur if the Underlying Stock price falls to \$42.5, which is 15% below \$50, the Underlying Stock Reference Price.

## 2. Share Consolidation

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

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

$$S_t = \$202$$

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

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

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:

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

$S_{t-1}$	$S_{t-1} \times Rfactor_t$	$S_t$	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)
0.40	0.42	5%

In such case an Intraday Restrike Event would occur if the Underlying Stock price falls to \$170, which is 15% below \$200, the Underlying Stock Reference Price.

### 3. Rights Issues

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.

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

$$S_t = \$84$$

$$Div_t = \$0$$

$$DivExc_t = \$0$$

$$R = \$40 \text{ (i.e. subscription price of \$40)}$$

$$M = 0.5 \text{ (i.e. 1 new share for every 2 existing shares)}$$

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

As a consequence:

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

$S_{t-1}$	$S_{t-1} \times Rfactor_t$	$S_t$	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)
0.40	0.5	25%

In such case an Intraday Restrike Event would occur if the Underlying Stock price falls to \$68, which is 15% below \$80, the Underlying Stock Reference Price.

#### 4. Bonus Issues

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

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

$$S_t = \$85$$

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

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

$$R = \$0$$

$$M = 0.2 \text{ (i.e. 1 new share for 5 existing shares)}$$

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

As a consequence:

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

$S_{t-1}$	$S_{t-1} \times Rfactor_t$	$S_t$	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)
0.40	0.44	10%

In such case an Intraday Restrike Event would occur if the Underlying Stock price falls to \$70.83, which is 15% below \$83.33, the Underlying Stock Reference Price.

#### 5. Extraordinary Dividend

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

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

$$S_t = \$84$$

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

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

$$R = \$0$$

$$M = 0$$

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

As a consequence:

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

$S_{t-1}$	$S_{t-1} \times Rfactor_t$	$S_t$	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)
0.40	0.5	25%

In such case an Intraday Restrike Event would occur if the Underlying Stock price falls to \$68, which is 15% below \$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 <http://www.geelyauto.com>. The Issuer has not independently verified any of such information.*

Geely Automobile Holdings Limited (the “**Company**”) (SEHK stock code: 175) is an automobile manufacturer, focusing on development, manufacturing and sales of passenger vehicles. The Company sells most of its products in the China market and has also expanded its sales through export to other developing countries in the past few years.

The Company’s shares are listed on the main board of The Stock Exchange of Hong Kong Limited (“**SEHK**”); the controlling shareholder of the Company is Zhejiang Geely Holding Group Company Limited, a private company incorporated in the People’s Republic of China (the “**PRC**”) which is wholly owned by Mr. Li Shu Fu, the Company’s substantial shareholder and chairman of its board of directors, and his associate.

With its headquarter established in Hangzhou, the PRC and 9 manufacturing plants in Luqiao, Linhai, Ningbo/Cixi, Chunxiao, Baoji, Jinzhong, Xiangtan, Jinan and Chengdu in the PRC, the Company has a total annual production capacity of 1,500,000 units of vehicle per double shift as at 31 December 2017. The Company sells its 14 major vehicle models (including the “Lynk&Co” vehicle model), which are mostly powered by its own high-performance turbocharged engines and developed from 5 product platforms of its own in “GEELY” brand, which are retailed through more than 880 dealers in the PRC. The Company also exports its products through 20 sales agents and 231 sales and service outlets in 20 oversea countries, mainly to developing countries in the Middle East, Europe and Africa. In November 2015, the Company announced its new energy vehicle strategy named ‘Blue Geely Initiative’ displaying its dedication to transformation into industry leader in new energy vehicle technologies amid the launch of its first new energy vehicle model on the back of the growth momentum of sales of new energy vehicles in China being expected to continue in the years ahead.

With a total workforce of 41,600 staff at the end of 2017 dedicated to fostering the Company’s core strength in powertrain technologies, product quality, customer satisfaction and supply chains, the Company generated the revenue of about RMB92.76 billion in 2017. Total market capitalization was about HKD204.36 billion as at 16 Apr 2018.

The information set out in Appendix I of this document relates to the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018 and has been extracted and reproduced from an announcement by the Company dated 10 April 2019 in relation to the same. 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 : 10 ticks or S\$0.20 whichever is greater
- (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), the DMM will not provide the bid price. In such an instance, the DMM will provide the offer price only;
- (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 relates to the latest description of the Issuer.

The information set out in Appendix III of this document is a reproduction of the annual financial statements of the Issuer as at and for the year ended 31 December 2018 and its auditor's report.

## **SUPPLEMENTAL INFORMATION RELATING TO THE GUARANTOR**

The information set out in Appendix IV of this document relates to the latest description of the Guarantor.

The information set out in Appendix V of this document is a reproduction of the press release dated 3 May 2019 containing the Guarantor's consolidated financial results for the first quarter ended 31 March 2019.

## SUPPLEMENTAL GENERAL INFORMATION

The information set out herein is supplemental to, and should be read in conjunction with, the information set out on page 86 of the Base Listing Document, and the Addendum.

1. Save as disclosed in this document and the Base Listing Document (as amended and supplemented by the Addendum), 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 third 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, the Addendum and herein, there has been no material adverse change in the financial position or prospects of the Issuer since 31 December 2018 or the Guarantor since 31 March 2019, 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) the Addendum;
  - (g) this document; and
  - (h) 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 be 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 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 (Cap.571) of Hong Kong and any rules made under that Ordinance.

### European Economic Area

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 the this document to any retail investor in the European Economic Area. 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 Directive 2003/71/EC (as amended, including by Directive 2010/73/EU, the Prospectus Directive); 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.

### United Kingdom

Each dealer has represented and agreed, and each further dealer appointed in respect of the Certificates will be required to 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, 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).

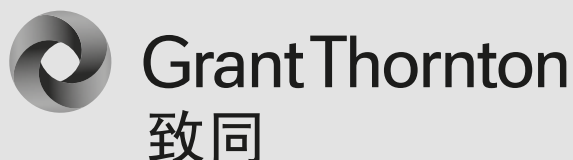
## **APPENDIX I**

### **REPRODUCTION OF THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018 OF GEELY AUTOMOBILE HOLDINGS LIMITED AND ITS SUBSIDIARIES**

The information set out below is a reproduction of the audited consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018 and has been extracted and reproduced from an announcement by the Company dated 10 April 2019 in relation to the same.



# INDEPENDENT AUDITOR'S REPORT



## To the members of Geely Automobile Holdings Limited

*(incorporated in the Cayman Islands with limited liability)*

### Opinion

We have audited the consolidated financial statements of Geely Automobile Holdings Limited ("the Company") and its subsidiaries ("the Group") set out on pages 97 to 226 which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

### Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the HKICPA's "Code of Ethics for Professional Accountants" ("the Code") and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## INDEPENDENT AUDITOR'S REPORT

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Impairment assessment of intangible assets

Refer to note 15 to the consolidated financial statements and the accounting policies as set out in note 4(e) to the consolidated financial statements.

#### The key audit matter

We identified the impairment of intangible assets as a key audit matter due to the judgement being made about future results of the business in assessing the recoverability of intangible assets. As at 31 December 2018, intangible assets of RMB14,993,188,000 consisted of capitalised product development costs related to multiple cash-generating units ("CGUs").

The Company's management performed impairment assessment of the Group's intangible assets by allocating the intangible assets to CGUs, the recoverable amount of each CGU was determined based on value-in-use calculations using future cash flow projections. Based on the results of the impairment assessment which involved significant management's judgement and key assumptions, including growth rates and discount rates applied to the value-in-use calculations, the Company's management has concluded that there was no impairment of intangible assets for the year ended 31 December 2018.

#### How the matter was addressed in our audit

Our audit procedures to assess the impairment testing of the Group's intangible assets by the Company's management included the following:

- Assessing the valuation methodology adopted by the management.
- Comparing the current year actual cash flows with the prior year cash flow projections to consider if the projections included any assumptions that were overly optimistic.
- Assessing the reasonableness of key assumptions, including growth rates and discount rates, based on our knowledge of the business and industry.
- Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.

## INDEPENDENT AUDITOR'S REPORT

**Key Audit Matters (Continued)****Revenue recognition**

Refer to note 6 to the consolidated financial statements and the accounting policies as set out in note 4(l) to the consolidated financial statements.

**The key audit matter**

Revenue recognition is identified as a key audit matter because of its financial significance to the consolidated financial statements and is one of key performance indicators of the Group. Accordingly, there may be risks of material misstatements related to revenue recognition.

**How the matter was addressed in our audit**

Our audit procedures in relation to revenue recognition included the following:

- Reviewing sales agreements, on a sample basis, to understand the terms of the sales transactions to assess whether the Group's accounting policies in relation to revenue recognition were applied appropriately and consistently throughout the year.
- Performing analytical review on revenue and gross margin by automobile products categories to identify significant or unusual fluctuation on revenue.
- Assessing, on a sample basis, whether specific revenue transactions around the reporting date had been recognised in the appropriate period by comparing the transactions selected with relevant underlying documentation, including customers' receipts, goods delivery notes and the terms of sales as set out in the distributor agreements.
- Sending confirmations to distributors, and performing inventory count, on a sample basis, at the reporting date.

## INDEPENDENT AUDITOR'S REPORT

### Other information

The directors are responsible for the other information. The other information comprises all the information included in the 2018 annual report of the Company, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated 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 that fact. We have nothing to report in this regard.

### Responsibilities of the directors for the consolidated financial statements

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group'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 directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee are responsible for overseeing the Group's financial reporting process.

### Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 consolidated financial statements.

## INDEPENDENT AUDITOR'S REPORT

**Auditor's responsibilities for the audit of the consolidated financial statements (Continued)**

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' 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 Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated 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 auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

## INDEPENDENT AUDITOR'S REPORT

### **Auditor's responsibilities for the audit of the consolidated financial statements (Continued)**

We communicate with the Audit Committee 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 the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with 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 the Audit Committee, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

#### **Grant Thornton Hong Kong Limited**

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

21 March 2019

#### **Chiu Wing Ning**

Practising Certificate No.: P04920

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000 (Note)
<b>Revenue</b>	6	<b>106,595,133</b>	92,760,718
Cost of sales		<b>(85,081,727)</b>	(74,779,337)
<b>Gross profit</b>		<b>21,513,406</b>	17,981,381
Other income	8	<b>1,236,985</b>	1,229,147
Distribution and selling expenses		<b>(4,523,278)</b>	(4,055,728)
Administrative expenses, excluding share-based payments		<b>(3,777,155)</b>	(2,922,798)
Share-based payments	31	<b>(14,594)</b>	(27,724)
Finance income/(costs), net	9(a)	<b>78,992</b>	(35,233)
Share of results of associates	18	<b>(59,949)</b>	39,211
Share of results of joint ventures	19	<b>504,566</b>	3,143
Gain on disposal of subsidiaries		<b>–</b>	562,562
<b>Profit before taxation</b>	9	<b>14,958,973</b>	12,773,961
Taxation	10	<b>(2,284,575)</b>	(2,038,572)
<b>Profit for the year</b>		<b>12,674,398</b>	10,735,389
<b>Attributable to:</b>			
Equity holders of the Company		<b>12,553,207</b>	10,633,715
Non-controlling interests		<b>121,191</b>	101,674
<b>Profit for the year</b>		<b>12,674,398</b>	10,735,389
<b>Earnings per share</b>			
Basic	12	<b>RMB1.40</b>	RMB1.19
Diluted	12	<b>RMB1.37</b>	RMB1.16

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

The notes on pages 105 to 226 are an integral part of these consolidated financial statements. Details of dividends payable to equity holders of the Company attributable to the profit for the year are set out in note 11.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000 (Note)
<b>Profit for the year</b>	<b>12,674,398</b>	10,735,389
<b>Other comprehensive income (after tax of RMBNil) for the year:</b> Items that may be reclassified subsequently to profit or loss:		
– Exchange differences on translation of financial statements of foreign operations	<b>92,418</b>	14,680
<b>Total comprehensive income for the year</b>	<b>12,766,816</b>	10,750,069
<b>Attributable to:</b>		
Equity holders of the Company	<b>12,644,665</b>	10,648,293
Non-controlling interests	<b>122,151</b>	101,776
<b>Total comprehensive income for the year</b>	<b>12,766,816</b>	10,750,069

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

The notes on pages 105 to 226 are an integral part of these consolidated financial statements.



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000 (Note)
<b>Non-current assets</b>			
Property, plant and equipment	14	23,422,617	14,052,943
Intangible assets	15	14,993,188	10,551,773
Land lease prepayments	16	3,268,035	2,123,909
Goodwill	17	26,414	16,079
Interests in associates	18	404,669	369,360
Interests in joint ventures	19	5,917,618	4,435,530
Available-for-sale financial assets		-	21,650
Deferred tax assets	26	642,959	401,325
		<b>48,675,500</b>	31,972,569
<b>Current assets</b>			
Land lease prepayments	16	66,538	47,810
Inventories	20	4,097,380	6,027,312
Trade and other receivables	21	22,864,974	33,478,308
Income tax recoverable		-	4,072
Pledged bank deposits		19,392	36,043
Bank balances and cash		15,737,196	13,414,638
		<b>42,785,480</b>	53,008,183
<b>Current liabilities</b>			
Trade and other payables	24	41,438,036	47,532,529
Bank borrowings	25	1,375,280	1,296,460
Income tax payable		947,085	1,072,958
		<b>43,760,401</b>	49,901,947
<b>Net current (liabilities)/assets</b>		<b>(974,921)</b>	3,106,236
<b>Total assets less current liabilities</b>		<b>47,700,579</b>	35,078,805

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	2018 RMB'000	2017 RMB'000 (Note)
<b>CAPITAL AND RESERVES</b>			
Share capital	27	164,470	164,286
Reserves	28	44,779,507	34,302,761
<b>Equity attributable to equity holders of the Company</b>		<b>44,943,977</b>	34,467,047
<b>Non-controlling interests</b>		<b>430,741</b>	343,787
<b>Total equity</b>		<b>45,374,718</b>	34,810,834
<b>Non-current liabilities</b>			
Bonds payables	23	2,047,822	-
Deferred tax liabilities	26	278,039	267,971
		<b>2,325,861</b>	267,971
		<b>47,700,579</b>	35,078,805

Approved and authorised for issue by the Board of Directors on 21 March 2019.

**Li Shu Fu**  
Director

**Gui Sheng Yue**  
Director

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

The notes on pages 105 to 226 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to equity holders of the Company								Non-controlling interests	Total
	Share capital	Share premium	Capital reserve	Statutory reserve	Translation reserve	Share option reserve	Accumulated profits	Sub-total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(note 27)	(note 28(a))	(note 28(c))	(note 28(b))	(note 28(d))	(note 28(e))	(note 28(f))			
Balance at 1 January 2017	162,708	6,212,325	164,790	170,420	(138,153)	478,714	17,386,423	24,437,227	249,022	24,686,249
Profit for the year	-	-	-	-	-	-	10,633,715	10,633,715	101,674	10,735,389
Other comprehensive income:										
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	14,578	-	-	14,578	102	14,680
Total comprehensive income for the year	-	-	-	-	14,578	-	10,633,715	10,648,293	101,776	10,750,069
Transactions with owners:										
Transfer of reserves	-	-	-	9,167	-	-	(9,167)	-	-	-
Shares issued under share option scheme	1,578	428,877	-	-	-	(116,598)	-	313,857	-	313,857
Equity settled share-based payments (note 31)	-	-	-	-	-	27,724	-	27,724	-	27,724
Transfer upon forfeiture of share options	-	-	-	-	-	(7,942)	7,942	-	-	-
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(7,011)	(7,011)
Dividends paid to equity holders of the Company (note 11)	-	-	-	-	-	-	(960,054)	(960,054)	-	(960,054)
Total transactions with owners	1,578	428,877	-	9,167	-	(96,816)	(961,279)	(618,473)	(7,011)	(625,484)
Balance at 31 December 2017 (Note)	164,286	6,641,202	164,790	179,587	(123,575)	381,898	27,058,859	34,467,047	343,787	34,810,834

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to equity holders of the Company								Non-controlling interests RMB'000	Total RMB'000
	Share capital RMB'000 (note 27)	Share premium RMB'000 (note 28(a))	Capital reserve RMB'000 (note 28(c))	Statutory reserve RMB'000 (note 28(b))	Translation reserve RMB'000 (note 28(d))	Share option reserve RMB'000 (note 28(e))	Accumulated profits RMB'000 (note 28(f))	Sub-total RMB'000		
<b>Balance at 31 December 2017 (Note)</b>	164,286	6,641,202	164,790	179,587	(123,575)	381,898	27,058,859	34,467,047	343,787	34,810,834
Impact on initial application of HKFRS 9 (note 3)	-	-	-	-	-	-	(34,313)	(34,313)	(197)	(34,510)
<b>Adjusted balance at 1 January 2018</b>	164,286	6,641,202	164,790	179,587	(123,575)	381,898	27,024,546	34,432,734	343,590	34,776,324
Profit for the year	-	-	-	-	-	-	12,553,207	12,553,207	121,191	12,674,398
Other comprehensive income:										
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	91,458	-	-	91,458	960	92,418
Total comprehensive income for the year	-	-	-	-	91,458	-	12,553,207	12,644,665	122,151	12,766,816
Transactions with owners:										
Capital contribution from non-controlling interests	-	-	-	-	-	-	-	-	1,030	1,030
Transfer of reserves	-	-	-	130,811	-	-	(153,609)	(22,798)	-	(22,798)
Shares issued under share option scheme	184	51,095	-	-	-	(15,669)	-	35,610	-	35,610
Equity settled share-based payments (note 31)	-	-	-	-	-	14,594	-	14,594	-	14,594
Transfer upon forfeiture of share options	-	-	-	-	-	(2,727)	2,727	-	-	-
Dividends paid to equity holders of the Company (note 11)	-	-	-	-	-	-	(2,160,828)	(2,160,828)	-	(2,160,828)
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	(36,030)	(36,030)
Total transactions with owners	184	51,095	-	130,811	-	(3,802)	(2,311,710)	(2,133,422)	(35,000)	(2,168,422)
<b>Balance at 31 December 2018</b>	164,470	6,692,297	164,790	310,398	(32,117)	378,096	37,266,043	44,943,977	430,741	45,374,718

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

The notes on pages 105 to 226 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000 (Note)
<b>Cash flows from operating activities</b>			
Profit before taxation		<b>14,958,973</b>	12,773,961
Adjustments for:			
Bad debts written off	9(c)	<b>2,219</b>	67,371
Bargain purchase gain arising from acquisition of a subsidiary	8	–	(3,402)
Depreciation and amortisation		<b>2,413,161</b>	1,938,008
Equity settled share-based payments	31	<b>14,594</b>	27,724
Finance costs	9(a)	<b>113,930</b>	162,290
Gain on disposal of an associate	8	–	(1,192)
Gain on disposal of subsidiaries		–	(562,562)
Impairment loss on trade and other receivables	9(c)	<b>9,659</b>	–
Interest income	9(a)	<b>(192,922)</b>	(127,057)
Net foreign exchange loss/(gain)		<b>225,520</b>	(4,105)
Net loss on disposal of property, plant and equipment	9(c)	<b>64,482</b>	34,074
Share of results of associates		<b>59,949</b>	(39,211)
Share of results of joint ventures		<b>(504,566)</b>	(3,143)
Operating profit before working capital changes		<b>17,164,999</b>	14,262,756
Inventories		<b>2,175,291</b>	(2,870,040)
Trade and other receivables		<b>11,664,380</b>	(4,238,240)
Trade and other payables		<b>(14,458,627)</b>	6,597,957
Cash generated from operations		<b>16,546,043</b>	13,752,433
Income taxes paid		<b>(2,620,921)</b>	(1,758,931)
<i>Net cash generated from operating activities</i>		<b>13,925,122</b>	11,993,502

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 RMB'000	2017 RMB'000 (Note)
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(2,312,931)	(3,451,567)
Proceeds from disposal of property, plant and equipment		104,723	55,790
Proceeds from disposal of available-for-sale financial assets		–	129
Additions of land lease prepayments	16	(178,985)	(240,128)
Additions of intangible assets	15	(5,031,452)	(3,949,951)
Additional capital injection in an associate	18	(95,258)	(38,131)
Additional capital injection in a joint venture	19	(880,000)	–
Investment in a joint venture	19	(97,522)	(3,750,000)
Proceeds from disposal of intangible assets		4,644	6,439
Change in pledged bank deposits		16,651	3,261
Net cash outflows on acquisition of subsidiaries	33	(3,063,151)	(1,728,634)
Net cash inflows on disposal of subsidiaries		–	1,040,728
Proceeds from disposal of an associate		–	13,860
Proceeds from disposal of financial assets at fair value through profit or loss		21,650	–
Interest received		192,922	127,057
<i>Net cash used in investing activities</i>		<b>(11,318,709)</b>	<b>(11,911,147)</b>
<b>Cash flows from financing activities</b>			
Dividends paid	11(b)	(2,160,828)	(960,054)
Dividends paid to non-controlling interests		(36,030)	–
Capital contribution from non-controlling interests		1,030	–
Proceeds from issuance of bonds, net of transaction costs	22	1,927,161	–
Proceeds from issuance of shares upon exercise of share options	27	35,610	313,857
Proceeds from bank borrowings	22	–	1,296,460
Repayments of bank borrowings	22	–	(174,375)
Redemption of senior notes	22	–	(2,033,536)
Interest paid	22	(73,298)	(126,950)
<i>Net cash used in financing activities</i>		<b>(306,355)</b>	<b>(1,684,598)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		13,414,638	15,045,493
Effect of foreign exchange rate changes		22,500	(28,612)
<b>Cash and cash equivalents at the end of the year, represented by bank balances and cash</b>		<b>15,737,196</b>	<b>13,414,638</b>

Note: The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

The notes on pages 105 to 226 are an integral part of these consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 1. GENERAL INFORMATION

Geely Automobile Holdings Limited (“the Company”) was incorporated in the Cayman Islands as an exempted company with limited liability. The Company’s shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “SEHK”).

The addresses of the registered office and principal place of business of the Company are disclosed in “Corporate Information” section to the annual report. As at 31 December 2018, the directors consider the immediate holding company of the Company is Proper Glory Holding Inc., which is incorporated in British Virgin Islands (the “BVI”). The ultimate holding company of the Company is Zhejiang Geely Holding Group Company Limited<sup>#</sup> 浙江吉利控股集团有限公司, which is incorporated in the People’s Republic of China (the “PRC”) and is beneficially owned by Mr. Li Shu Fu and his associates.

The Company is an investment holding company. The principal activities of the Company’s subsidiaries are set out in note 37 to the consolidated financial statements.

<sup>#</sup> The English translation of the name of the company established in the PRC is for reference only. The official name of the company is in Chinese.

## 2. STATEMENT OF COMPLIANCE

These consolidated financial statements on pages 97 to 226 have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”), and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance.

These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the SEHK (the “Listing Rules”). Significant accounting policies adopted by the Company and its subsidiaries (together referred to as the “Group”) is set out in note 4 below.

The HKICPA has issued certain new and amended HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**3. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES****3.1 New and amended HKFRSs adopted as at 1 January 2018**

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, HKFRS 9 “Financial Instruments” (“HKFRS 9”) and HKFRS 15 “Revenue from Contracts with Customers” (“HKFRS 15”) are relevant to the Group’s financial statements.

The Group has early adopted the amendments to HKFRS 9 “Prepayment Features with Negative Compensation” at the same time as the adoption of HKFRS 9 as at 1 January 2018.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses. Details of the changes in accounting policies are discussed in note 3.1(a) for HKFRS 9 and note 3.1(b) for HKFRS 15.

Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 as an adjustment to the opening balance of equity at 1 January 2018. Comparative information is not restated. The following table gives a summary of the opening balance adjustments recognised for each line item in the consolidated statement of financial position that has been impacted by HKFRS 9:

	<b>As at 31 December 2017 RMB'000</b>	<b>Impact on initial application of HKFRS 9 RMB'000</b>	<b>As at 1 January 2018 RMB'000</b>
Trade and other receivables	33,478,308	(37,993)	33,440,315
<b>Total current assets</b>	<b>53,008,183</b>	<b>(37,993)</b>	<b>52,970,190</b>
Deferred tax assets	401,325	3,483	404,808
<b>Total non-current assets</b>	<b>31,972,569</b>	<b>3,483</b>	<b>31,976,052</b>
<b>Net assets</b>	<b>34,810,834</b>	<b>(34,510)</b>	<b>34,776,324</b>
Reserves	34,302,761	(34,313)	34,268,448
<b>Equity attributable to equity holders of the Company</b>	<b>34,467,047</b>	<b>(34,313)</b>	<b>34,432,734</b>
Non-controlling interests	343,787	(197)	343,590
<b>Total equity</b>	<b>34,810,834</b>	<b>(34,510)</b>	<b>34,776,324</b>

Further details of these changes are set out in sub-sections (a) and (b) of this note.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**3. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES (Continued)****3.1 New and amended HKFRSs adopted as at 1 January 2018 (Continued)****(a) HKFRS 9 including the amendments to HKFRS 9 “Prepayment Features with Negative Compensation”**

HKFRS 9 replaces HKAS 39 “Financial Instruments: Recognition and Measurement” (“HKAS 39”). It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. According to the transitional relief, the Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

The following table summarises the impact of transition to HKFRS 9 on accumulated profits, non-controlling interests and the related tax impact as at 1 January 2018.

	RMB'000
<b>Accumulated profits</b>	
Recognition of additional expected credit losses on financial assets measured at amortised cost	(37,762)
Related taxation	3,449
Net decrease in accumulated profits as at 1 January 2018	(34,313)
<b>Non-controlling interests</b>	
Recognition of additional expected credit losses on financial assets measured at amortised cost and decrease in non-controlling interests as at 1 January 2018	(197)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**3. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES (Continued)****3.1 New and amended HKFRSs adopted as at 1 January 2018 (Continued)****(a) HKFRS 9 including the amendments to HKFRS 9 “Prepayment Features with Negative Compensation” (Continued)**

Further details of the nature and effect of the changes of the previous accounting policies and the transition approach are set out below:

**(i) Classification of financial assets and financial liabilities**

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (“FVOCI”) and at fair value through profit or loss (“FVPL”). These supersede HKAS 39’s categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

The following table shows the original measurement categories for each class of the Group’s financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**3. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES (Continued)****3.1 New and amended HKFRSs adopted as at 1 January 2018 (Continued)****(a) HKFRS 9 including the amendments to HKFRS 9 “Prepayment Features with Negative Compensation” (Continued)****(i) Classification of financial assets and financial liabilities (Continued)**

	HKAS 39 carrying amount as at 31 December 2017 RMB'000	Reclassification RMB'000	Remeasurement RMB'000	HKFRS 9 carrying amount as at 1 January 2018 RMB'000
<b>Financial assets carried at amortised cost</b>				
Trade and other receivables (excluding prepayment to suppliers and VAT and other taxes receivables)	30,624,347	–	(37,993)	30,586,354
Pledged bank deposits	36,043	–	–	36,043
Bank balances and cash	13,414,638	–	–	13,414,638
	44,075,028	–	(37,993)	44,037,035
<b>Financial assets measured at FVPL</b>				
Unlisted equity securities (note)	–	21,650	–	21,650
<b>Financial assets classified as available-for-sale financial assets under HKAS 39 (note)</b>	21,650	(21,650)	–	–

Note: Under HKAS 39, unlisted equity securities not held for trading were classified as available-for-sale financial assets. These equity securities are classified as FVPL under HKFRS 9.

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 4(h) and 4(k).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities as at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**3. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES (Continued)****3.1 New and amended HKFRSs adopted as at 1 January 2018 (Continued)****(a) HKFRS 9 including the amendments to HKFRS 9 “Prepayment Features with Negative Compensation” (Continued)****(ii) Credit losses**

HKFRS 9 replaces the “incurred loss” model in HKAS 39 with the “expected credit loss” (“ECL”) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the “incurred loss” accounting model in HKAS 39.

The Group applies the new ECL model to the financial assets measured at amortised cost (including bank balances and cash, pledged bank deposits and trade and other receivables).

Financial assets measured at fair value, including unlisted equity securities measured at FVPL, are not subject to the ECL assessment.

For further details on the Group’s accounting policy for accounting for credit losses, see note 4(h).

As a result of this change in accounting policy, the Group has recognised additional ECLs amounting to RMB37,993,000, which decreased accumulated profits by RMB34,313,000 and non-controlling interests by RMB197,000 and increased gross deferred tax assets by RMB3,483,000 as at 1 January 2018.

The following table reconciles the closing loss allowance determined in accordance with HKAS 39 as at 31 December 2017 with the opening loss allowance determined in accordance with HKFRS 9 as at 1 January 2018.

	<b>RMB’000</b>
Loss allowance as at 31 December 2017 under HKAS 39	–
Additional credit loss recognised as at 1 January 2018 on trade receivables	37,993
Loss allowance as at 1 January 2018 under HKFRS 9	37,993

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**3. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES (Continued)****3.1 New and amended HKFRSs adopted as at 1 January 2018 (Continued)****(a) HKFRS 9 including the amendments to HKFRS 9 “Prepayment Features with Negative Compensation” (Continued)****(iii) Transition**

Changes in accounting policies resulting from the adoption of HKFRS 9 have been applied retrospectively, except as described below:

- Information relating to comparative periods has not been restated. Differences in the carrying amounts of financial assets resulting from the adoption of HKFRS 9 are recognised in accumulated profits as at 1 January 2018. Accordingly, the information presented for 2017 continues to be reported under HKAS 39 and thus may not be comparable with the current period.
- The following assessments have been made on the basis of the facts and circumstances that existed as at 1 January 2018 (the date of initial application of HKFRS 9 by the Group):
  - The determination of the business model within which a financial asset is held.
- If, at the date of initial application, the assessment of whether there has been a significant increase in credit risk since initial recognition would have involved undue cost or effort, a lifetime ECL has been recognised for that financial instrument.

**(b) HKFRS 15***Sales of automobiles and automobile parts and components*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18 “Revenue”, which covered revenue arising from sale of goods and rendering of services, and HKAS 11 “Construction Contracts”, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**3. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES (Continued)****3.1 New and amended HKFRSs adopted as at 1 January 2018 (Continued)****(b) HKFRS 15 (Continued)***Sales of automobiles and automobile parts and components (Continued)*

Revenue are generally recognised at a point in time when the customers obtain possession of and control of the promised goods in the contract.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

A contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. The Group recognised its contract liabilities under “Trade and other payables” as receipts in advance from customers in the consolidated statement of financial position.

The directors of the Company consider that the adoption of HKFRS 15 has no material impact on the Group’s financial position and results of operation.

**3.2 Issued but not yet effective HKFRSs**

Up to the date of issue of these financial statements, the HKICPA has issued a number of new and amended HKFRSs which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

HKFRS 16	Leases <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>2</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle <sup>1</sup>
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>2</sup> Effective date not yet determined

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**3. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES (Continued)****3.2 Issued but not yet effective HKFRSs (Continued)**

The Group is in the process of making an assessment of what the impact of these new and amended HKFRSs is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 “Leases” (“HKFRS 16”) which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. Other new and amended HKFRSs are not expected to have a material impact on the Group’s consolidated financial statements. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

**HKFRS 16**

As discussed in the note 4(p), currently the Group classifies leases into operating leases. The Group enters into some leases as the lessor and others as the lessee. HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease, the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for office and factory premises which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the consolidated income statement over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets. Furthermore, the Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 3. ADOPTION OF NEW AND AMENDED HKFRSs AND CHANGES IN ACCOUNTING POLICIES (Continued)

#### 3.2 Issued but not yet effective HKFRSs (Continued)

##### *HKFRS 16 (Continued)*

However, based on an initial assessment, the Group expects that the adoption of HKFRS 16 will not materially affect the Group's consolidated financial statements.

### 4. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of preparation

The consolidated financial statements for the year ended 31 December 2018 comprise the Group and the Group's interests in associates and joint ventures.

The measurement basis used in the preparation of the consolidated financial statements is the historical cost basis except that financial assets at fair value through profit or loss (see note 4(h)) are stated at fair value.

The consolidated financial statements have been prepared on a going concern basis, although the Group was in net current liabilities position as at 31 December 2018, the directors consider the cash inflow of the profitable operations and the stand-by bank facilities available which the Group has sufficient financial resources to meet its present requirements.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the consolidated financial statements and major sources of estimation uncertainty are discussed in note 5.

The consolidated financial statements are presented in thousands of Renminbi ("RMB'000"), which is also the functional currency of the Company.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(b) Basis of consolidation**

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

A subsidiary is an entity, directly or indirectly, controlled by the Group. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee). When assessing whether the Group has power over the entity, only substantive rights relating to the entity (held by the Group and others) are considered.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated income statement and consolidated statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Intra-group transactions, balances and unrealised gains and losses on transactions between group companies are eliminated in preparing the consolidated financial statements. Where unrealised losses on intra-group asset sales are reversed on consolidation, the underlying asset is also tested for impairment from the Group's perspective. Amounts reported in the financial statements of subsidiaries have been adjusted where necessary to ensure consistency with the accounting policies adopted by the Group.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets. The Group elects to measure any non-controlling interest in the subsidiary at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets for all business combinations.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from the equity attributable to equity holders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and equity holders of the Company.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(b) Basis of consolidation (Continued)**

Changes in the Group's interests in subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interests in that subsidiary. The profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e., reclassified to profit or loss or transferred directly to accumulated profits). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

In the Company's statement of financial position, investments in subsidiaries are carried at cost less any impairment loss (see note 4(j)) unless the investments are held for sale or included in a disposal group. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investments.

The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the reporting date. All dividends whether received out of the investee's pre or post-acquisition profits are recognised in the Company's profit or loss.

**(c) Goodwill**

Goodwill arising on a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree, if any, over the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets and liabilities measured exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree, if any, the excess is recognised immediately in profit or loss as a bargain purchase gain.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(c) Goodwill (Continued)**

Goodwill is stated at cost less accumulated impairment losses (see note 4(j)). Goodwill arising on a business combination is allocated to each cash-generating unit or groups of cash-generating units, which is expected to benefit from the synergies of the combination and is tested at least annually for impairment. In respect of associates and joint venture, the carrying amount of goodwill is included in the carrying amount of the interests in associates and joint ventures.

On disposal of a cash-generating unit or an associate and a joint venture, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

**(d) Interests in associates and joint ventures**

An associate is an entity over which the Group or the Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or the Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in these consolidated financial statements using the equity method. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interests in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities measured and contingent liabilities assumed of an associate or a joint venture recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities measured over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the determination of the Group's share of the associate or joint venture's profit or loss in the period in which the investment is acquired.

Where a group entity transacts with an associate or a joint venture of the Group, profits and losses are eliminated to the extent of the Group's interests in the relevant associate and joint venture. Where unrealised losses on assets sales between the Group and its associate or joint venture are reversed on equity accounting, the underlying asset is also tested for impairment from the Group's perspective.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(d) Interests in associates and joint ventures (Continued)**

Where necessary, adjustments are made to the financial statements of associates and joint ventures to bring their accounting policies in line with those used by the Group.

After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investments in its associates or joint ventures. At each reporting date, the Group determines whether there is any objective evidence that the investment in an associate or a joint venture is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (higher of value in use and fair value less costs of disposal) of the associate or joint venture and its carrying amount. In determining the value in use of the investment, the Group estimates its share of the present value of the estimated future cash flows expected to be generated by the associate or joint venture, including cash flows arising from the operations of the associate or joint venture and the proceeds on ultimate disposal of the investment.

The Group discontinues the use of equity method from the date when it ceases to have significant influence over an associate or joint control over a joint venture. If the retained interest in that former associate or joint venture is a financial asset, the retained interest is measured at fair value, which is regarded as its fair value on initial recognition as a financial asset in accordance with HKFRS 9. The difference between (i) the fair value of any retained interest and any proceeds from disposing of the interest in the associate or joint venture; and (ii) the carrying amount of the investment at the date the equity method was discontinued, is recognised in the profit or loss. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as they would have been required if the associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by the investee would be reclassified to profit or loss on the disposal of the related assets or liabilities, the entity reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

In the Company's statement of financial position, interest in a joint venture is stated at cost less impairment losses (see note 4(j)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(e) Intangible assets (other than goodwill)**

Intangible assets acquired separately are recognised initially at cost. After initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses (see note 4(j)). Amortisation for intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over their estimated useful lives. Amortisation begins when the asset is available for use (i.e. when it is in the location and condition necessary for it to be capable of operation).

***Research and development costs***

Costs associated with research activities are recognised as an expense in the period in which it is incurred. Costs that are directly attributable to the development phase are recognised as intangible assets provided they meet the following recognition requirements:

- (i) demonstration of technical feasibility of the prospective product for internal use or sale;
- (ii) there is an intention to complete the intangible asset and use or sell it;
- (iii) the Group's ability to use or sell the intangible asset is demonstrated;
- (iv) the intangible asset will generate probable economic benefits through internal use or sale;
- (v) sufficient technical, financial and other resources are available for completion; and
- (vi) the expenditure attributable to the intangible asset can be reliably measured.

The costs capitalised include employee costs incurred on development along with an appropriate portion of relevant overheads. The costs of internally generated product developments are recognised as intangible assets. They are subject to the same subsequent measurement method as externally acquired intangible assets.

Capitalised product development costs are amortised over 3 to 10 years. All other development costs are recognised as an expense in the period in which it is as incurred.

Both the period and method of amortisation are reviewed annually.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(f) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

**(g) Foreign currency translation**

In preparing the financial statements of each individual group entity, foreign currency transactions are translated into the functional currency of the individual group entity at exchange rates prevailing at the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at that date.

Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rate ruling at the transaction dates and not retranslated.

Exchange differences arising on the settlement of monetary assets and liabilities, and on the translation of monetary assets and liabilities, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary assets and liabilities that forms part of the Company's net investment in a foreign operation, in which case such exchange differences are recognised in other comprehensive income. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in other comprehensive income, in which cases, the exchange differences are also recognised directly in other comprehensive income.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(g) Foreign currency translation (Continued)**

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Renminbi ("RMB")) at the exchange rates prevailing at the reporting date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in a separate component of equity (i.e. the translation reserve). Such exchange differences are reclassified from equity to profit or loss as a reclassification adjustment in the period in which the foreign operation is disposed of.

**(h) Financial instruments**

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, in case of financial assets or liabilities not at FVPL, are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs of financial assets carried at FVPL are expensed in consolidated income statement.

***Financial assets (Policy applicable from 1 January 2018)***

Non-equity investments held by the Group are classified into amortised cost, if the investment is held within a business model whose objective is to hold the investment and collect its contractual cash flows and the contractual terms of the investment give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. Interest income from the investment is calculated using the effective interest method (note 4(l)).

An investment in equity securities is classified as financial assets measured at FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI (non-recycling), are recognised in profit or loss as "Other income".

***Credit losses***

The Group recognises a loss allowance for ECLs on the financial assets measured at amortised cost (including bank balances and cash, pledged bank deposits and trade and other receivables).

Financial assets measured at fair value, including unlisted equity securities measured at FVPL, are not subject to the ECL assessment.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(h) Financial instruments (Continued)*****Financial assets (Policy applicable from 1 January 2018) (Continued)****Credit losses (Continued)*Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls on bank balances and cash, pledged bank deposits and trade and other receivables are discounted using effective interest rate determined at initial recognition or an approximation thereof where the effect of discounting is material.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(h) Financial instruments (Continued)*****Financial assets (Policy applicable from 1 January 2018) (Continued)****Credit losses (Continued)**Significant increases in credit risk*

In assessing whether the credit risk of a financial instrument (including a loan commitment) has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Despite the foregoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the end of each reporting period. A debt instrument is determined to have low credit risk if it has a low risk of default, the borrower has strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (h) Financial instruments (Continued)

##### *Financial assets (Policy applicable from 1 January 2018) (Continued)*

##### *Credit losses (Continued)*

##### Significant increases in credit risk (Continued)

Detailed analysis of the ECL assessment of trade receivables and other financial assets measured at amortised cost are set out in note 35.

##### Basis of calculation of interest income on credit-impaired financial assets

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

##### Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(h) Financial instruments (Continued)*****Financial assets (Policy applicable from 1 January 2018) (Continued)****Credit losses (Continued)**Write-off policy (Continued)*

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

***Financial assets (Policy applicable prior to 1 January 2018)***

Financial assets are classified into the following categories:

- loans and receivables; and
- available-for-sale financial assets.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, pledged bank deposits and bank balances and cash) are initially recognised at fair value, and are subsequently measured at amortised cost using the effective interest method less any identified impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

*Available-for-sale financial assets*

Non-derivative financial assets that do not qualify for inclusion in any of the other categories of financial assets are classified as available-for-sale financial assets.

Investments in equity instruments classified as available-for-sale that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at each reporting date subsequent to initial recognition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(h) Financial instruments (Continued)*****Financial assets (Policy applicable prior to 1 January 2018) (Continued)******Impairment of financial assets***

An “incurred loss” model was used to measure impairment losses on financial assets not classified as at FVPL. Under the “incurred loss” model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data including but not limited to adverse changes in the payment status of debtors in the group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

**(i) Financial assets carried at amortised cost**

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate (i.e. the effective interest rate computed at initial recognition), where the effect of discounting is material. The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(h) Financial instruments (Continued)*****Financial assets (Policy applicable prior to 1 January 2018) (Continued)******Impairment of financial assets (Continued)*****(ii) Financial assets carried at cost**

For financial assets carried at cost, the amount of impairment loss is measured as the difference between the carrying amount of the financial assets and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. The amount of the impairment losses is recognised in profit or loss of the period in which the impairment occurs and it is not reversed in subsequent periods.

Impairment losses on financial assets other than trade receivables that are stated at amortised cost, are written off against the corresponding assets directly. Where the recovery of trade receivables is considered doubtful but not remote, the impairment losses for doubtful receivables are recorded using an allowance account. When the Group is satisfied that recovery of trade receivables is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account in respect of that receivable are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

Impairment losses recognised in an interim period in respect of available-for-sale equity investment and unquoted equity investment carried at cost are not reversed in a subsequent period.

***Financial liabilities***

The Group's financial liabilities include bank borrowings, bonds payables and trade and other payables.

Financial liabilities are recognised when the Group becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Group's accounting policy for borrowing costs (see note 4(r)).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (h) Financial instruments (Continued)

##### *Financial liabilities (Continued)*

###### *Trade and other payables*

Trade and other payables are initially recognised at their fair values, and are subsequently measured at amortised cost, using the effective interest method.

###### *Interest bearing borrowings*

Interest bearing borrowings, including bank borrowings and bonds payables, are classified as financial liabilities and recognised initially at fair value, less transaction costs incurred. Interest bearing borrowings are subsequently stated at amortised cost, using the effective interest method.

Interest bearing borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the reporting date.

###### *Financial guarantees issued*

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within “Trade and other payables” at fair value, which is determined by reference to fees charged in an arm’s length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(h) Financial instruments (Continued)*****Financial liabilities (Continued)****Financial guarantees issued (Continued)***(i) Policy applicable from 1 January 2018**

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "Trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

**(ii) Policy applicable prior to 1 January 2018**

Prior to 1 January 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee and (ii) the amount of the claim on the group was expected to exceed the amount carried in "Trade and other payables" in respect of the guarantee.

***Derecognition***

Financial assets are derecognised when the rights to receive cash flows from the assets expired or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity, if any, is recognised in profit or loss.

For financial liabilities, they are derecognised from the Group's consolidated statement of financial position when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liabilities derecognised and the consideration paid or payable is recognised in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(i) Property, plant and equipment**

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment loss (see note 4(j)). Cost comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, and for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy.

Depreciation is provided to write off the cost of items of property, plant and equipment (other than construction in progress) over their estimated useful lives less their estimated residual values, if any, using the straight-line method as follows:

Leasehold buildings	30 years
Plant and machinery	7 to 10 years
Leasehold improvements	Over the shorter of the unexpired lease terms and 3 years
Furniture and fixtures, office equipment and motor vehicles	5 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Gain or loss arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance, are charged to profit or loss during the financial period in which they are incurred.

Construction in progress is stated at cost less accumulated impairment losses (see note 4(j)). Cost includes all construction expenditure and other direct costs, including interest costs, attributable to such projects. Costs on completed construction works are transferred to the appropriate asset category. No depreciation is provided in respect of construction in progress until it is completed and available for use.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(i) Impairment of non-current assets**

Internal and external sources of information are reviewed at the reporting date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- land lease prepayments;
- intangible assets;
- goodwill; and
- investments in subsidiaries and interest in a joint venture in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– ***Calculation of recoverable amount***

The recoverable amount of an asset is the higher of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– ***Recognition of impairment losses***

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(j) Impairment of non-current assets (Continued)****– Reversals of impairment losses**

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34 "Interim Financial Reporting", in respect of the first six months of the financial year. At the interim reporting date, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

Impairment losses recognised in an interim period in respect of goodwill, are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

**(k) Cash and cash equivalents**

Cash and cash equivalents include cash at banks and in hand, demand deposits with banks and short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash which are subject to an insignificant risk of changes in value. Cash and cash equivalents are assessed for ECLs in accordance with the policy set out in note 4(h).

**(l) Revenue recognition****Sales of automobiles and automobile parts and components and scrap materials**

Revenue is generally recognised at a point in time when the customers obtain possession of and control of the promised goods in the contract. A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due. Revenue excludes value added tax ("VAT") or related sales taxes and net of discounts.

A contract liability is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. The Group recognised its contract liabilities under "Trade and other payables" as receipts in advance from customers in the consolidated statement of financial position.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(l) Revenue recognition (Continued)***Sales of automobiles and automobile parts and components and scrap materials (Continued)*

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Sales-related warranties associated with automobiles cannot be purchased separately and are served as an assurance that the products sold comply with agreed-upon specifications (i.e. assurance-type warranties). Accordingly, the Group accounts for warranties in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

*Claim income on defective materials purchased*

Claim income on defective materials purchased is recognised when the claim has been made to and confirmed by relevant suppliers.

*Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term.

*Interest income*

Interest income is recognised as it accrues using the effective interest method.

**(m) Taxation**

Income tax expense comprises current tax and deferred tax.

Current tax and movement in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable profit for the year. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(m) Taxation (Continued)**

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to other comprehensive income or equity, in which case the deferred tax is also dealt with in other comprehensive income or equity.

The carrying amount of a deferred tax asset is reviewed at the reporting date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(m) Taxation (Continued)**

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and current tax liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and deferred tax liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - (i) the same taxable entity; or
  - (ii) different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

**(n) Equity settled share-based payments**

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in the share option reserve within equity. The fair value is measured at grant date using the Binomial Option Pricing Model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged or credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share option reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share option reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share option reserve until either the option is exercised (when it is included in the amount recognised in share premium for the shares issued) or the option expires (when it is released directly to accumulated profits).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(n) Equity settled share-based payments (Continued)**

If the share options granted are cancelled or settled during the vesting period (other than a grant cancelled by forfeiture when the vesting conditions are not satisfied), the cancellation or settlement is accounted for as an acceleration of vesting, and the amount that otherwise would have been recognised for services received over the remainder of the vesting period is recognised immediately in profit or loss.

**(o) Employee benefits****(i) Short term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

**(ii) Retirement benefit costs**

Payments to the Group's Mandatory Provident Fund Scheme ("MPF Scheme") in Hong Kong, the state-managed retirement benefit scheme in the PRC and defined contribution superannuation funds in other overseas countries are charged as expenses as they fall due.

**(p) Leased assets**

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

**(i) Classification of assets leased to the Group**

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases. Except that land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lease.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(p) Leased assets (Continued)****(ii) Operating lease charges**

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

**(q) Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to income are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

The government grants relating to the purchase of land lease prepayments, intangible assets and property, plant and equipment for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the assets by way of reduced depreciation and amortisation expenses.

Government grants relating to income is presented in gross under "Other income" in the consolidated income statement.

**(r) Borrowing costs**

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (s) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future uncertain events not wholly within the control of the Group, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### (t) Related parties

For the purposes of these consolidated financial statements, a party is considered to be related to the Group if:

- (a) the party, is a person or a close member of that person's family and that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of a parent of the Group; or



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**4. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(t) Related parties (Continued)**

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any members of a group of which it is a part, provides key management personnel services to the Group or the Company's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

**(u) Segment reporting**

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management, being the chief operating decision maker, for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

**Key sources of estimation uncertainty**

The following are the key 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.

***Allowance for bad and doubtful debts***

Starting from 1 January 2018, the loss allowance for trade receivables is based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For the year ended 31 December 2018, the impairment loss of RMB9,659,000 was recognised on trade and other receivables.

Prior to 1 January 2018, the provision for bad and doubtful debts of the Group is based on the evaluation by management of the collectability of the trade and other receivables (note 21). A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including assessing the current creditworthiness and the past collection history of each customer. If the financial conditions of these customers were to deteriorate, resulting in an impairment of their ability to make payments, an additional allowance will be required. Bad debts of RMB67,371,000 have been written off during the year ended 31 December 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)****Key sources of estimation uncertainty (Continued)*****Write-down of inventories***

The Company's management reviews the condition of inventories, as stated in note 20 to the consolidated financial statements, at each reporting date, and makes allowance for inventories that are identified as obsolete, slow-moving or no longer recoverable or suitable for use in production. The Group carries out the inventory review on a product-by-product basis and makes allowances by reference to the latest market prices and current market conditions. No inventories has been written down during the year (2017: RMBNil).

***Impairment of long-lived assets***

If circumstances indicate that the net book value of a long-lived asset, including property, plant and equipment and intangible assets (notes 14 and 15), may not be recoverable, the asset may be considered "impaired" and an impairment loss may be recognised in accordance with HKAS 36 "Impairment of Assets" ("HKAS 36"). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the higher of the fair value less costs of disposal and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant estimation relating to the level of sales volume, selling prices and the amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales volume, selling prices and the amount of operating costs. No impairment was provided for long-lived assets during the year (2017: RMBNil).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)****Key sources of estimation uncertainty (Continued)*****Depreciation and amortisation***

Property, plant and equipment and intangible assets (notes 14 and 15) with finite useful lives are depreciated or amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value, if any. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation and amortisation expense to be recorded during the financial year. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

***Impairment of investments***

The Group assesses annually and at each interim reporting date if interests in associates and joint ventures (notes 18 and 19) have suffered any impairment in accordance with HKAS 36. Details of the approach are stated in the accounting policy as set out in note 4(d). The assessment of value in use requires an estimation of future cash flows, including expected dividends, from the investments and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause adjustments to their carrying amounts. No impairment loss was provided for interests in associates and joint ventures during the year (2017: RMBNil).

***Income taxes***

Subsidiaries of the Group are subject to income taxes according to different tax rates of different regions in the PRC. As certain tax affairs are pending the confirmation of relevant tax authorities, the Group shall make reliable estimates and judgements for the expected tax adjustments and amounts resulting from such affairs based on the current tax laws and relevant policies. Subsequently, if differences exist between the initial estimates of such affairs and the actual amount of tax payable due to certain objective reasons, such difference will affect the taxes for the current period and tax payables of the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)****Key sources of estimation uncertainty (Continued)*****Deferred tax***

As at 31 December 2018, deferred tax assets of RMB114,846,000 (2017: RMBNil) in relation to unused tax losses have been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised in respect of the remaining tax losses of RMB2,239,044,000 (2017: RMB2,163,395,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less or more than expected, a material reversal or further recognition of deferred tax assets may arise, which would be recognised in the profit or loss for the period in which such a reversal or further recognition takes place. Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised.

As at 31 December 2018, deferred tax liabilities of RMB278,039,000 (2017: RMB267,971,000) relating to the distributable profits not yet paid out as dividends that are generated by the PRC subsidiaries have been recognised in the Group's consolidated statement of financial position. Deferred tax liabilities have not been recognised in respect of temporary differences relating to the post-2007 undistributed profits of the PRC subsidiaries of RMB12,219,028,000 (2017: RMB11,557,434,000) as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future. Further details are disclosed in note 26.

**Critical accounting judgements*****Interests in joint ventures and associates***

As disclosed in note 19, the Group invested in Genius Auto Finance Company Limited<sup>#</sup> ("Genius AFC") 吉致汽車金融有限公司 as at 31 December 2018 and 2017. Unanimous consent from the Group and the other investor, BNP Paribas Personal Finance or unanimous resolution of all directors (present in person or represented by proxy for the board meeting) of Genius AFC for certain key corporate matters is needed. Therefore, Genius AFC is under the joint control of the Group and BNP Paribas Personal Finance, despite the Group has an equity interest of 80%. Also, the Group and BNP Paribas Personal Finance have rights to the net assets of Genius AFC. Accordingly, the investment in Genius AFC is classified as a joint venture of the Group and accounted for using equity method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)****Critical accounting judgements (Continued)*****Interests in joint ventures and associates (Continued)***

Meanwhile, the Group invested in LYNK & CO Investment Co., Ltd.<sup>#</sup> (“LYNK & CO Investment”) 領克投資有限公司 as at 31 December 2018 and 2017. Unanimous consent from the Group and the two remaining shareholders of LYNK & CO Investment (the “JV Parties”) or unanimous resolution of all directors (present in person or represented by proxy for the board meeting) of LYNK & CO Investment for certain key corporate matters is needed. Therefore, LYNK & CO Investment is under the joint control of the Group and the JV Parties. Accordingly, the investment in LYNK & CO Investment is classified as a joint venture of the Group and accounted for using equity method.

Also, the Group invested in Zhejiang Geely AISIN Automatic Transmission Company Limited<sup>#</sup> (“Zhejiang AISIN”) 浙江吉利愛信自動變速器有限公司 as at 31 December 2018. Unanimous resolution of all directors of Zhejiang AISIN for certain key corporate matters is needed. Therefore, Zhejiang AISIN is a joint venture of the Group and its financial results were accounted for using the equity method.

As disclosed in note 18, the Group retains significant influence over Faurecia Emissions Control Technologies (Ningbo) Co., Ltd.<sup>#</sup> 佛吉亞排氣控制技術(寧波)有限公司 through the power to nominate representative on the board of directors, despite the Group’s equity interest is 9%. As a result, the investment is classified as an associate of the Group and accounted for using equity method.

<sup>#</sup> The English translation of the names of the companies established in the PRC is for reference only. The official names of these companies are in Chinese.

**6. REVENUE**

Revenue from sales of automobiles and automobile parts and components, net of VAT or related sales taxes and net of discounts, was generally recognised at a point in time when the customers obtain possession of and control of the promised goods in the contract.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**6. REVENUE (Continued)**

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
		(Note)
<b>Revenue from contracts with customers within the scope of HKFRS 15</b>		
Disaggregated by major products		
– Sales of automobiles	<b>102,651,387</b>	91,282,893
– Sales of automobile parts and components	<b>3,943,746</b>	1,477,825
	<b>106,595,133</b>	92,760,718

Note: The Group has initially applied HKFRS 15 using the cumulative effect transition method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18. See note 3.

The Group's customer base is diversified and no customer with whom the transactions has exceeded 10% of the Group's revenue.

**7. SEGMENT INFORMATION**

The only operating segment of the Group is the production and sale of automobiles, automobile parts and related automobile components. The directors consider that the Group operates in a single business segment. No separate analysis of the reportable segment results by operating segment is necessary.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**7. SEGMENT INFORMATION (Continued)****Geographical information**

The following tables set out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets, interests in associates and joint ventures, goodwill and land lease prepayments ("specified non-current assets"). The geographical location of customers is based on the location at which the services are provided or the goods are delivered. The geographical location of the specified non-current assets is based on the physical location of the assets in the case of property, plant and equipment and land lease prepayments, the location of the operations to which they are allocated in the case of intangible assets and goodwill, and the location of operations in the case of interests in associates and joint ventures.

	2018 RMB'000	2017 RMB'000
<b>Revenue from external customers</b>		
PRC	105,157,280	92,168,021
Eastern Europe	618,281	180,560
Middle East	488,135	187,756
Africa	190,818	76,443
Central and South America	138,220	67,536
Other countries	2,399	80,402
	<b>106,595,133</b>	92,760,718
<b>Specified non-current assets</b>		
Hong Kong, place of domicile	196	232
PRC	47,896,705	31,442,068
Other countries	135,640	107,294
	<b>48,032,541</b>	31,549,594



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**8. OTHER INCOME**

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Rental income	<b>32,715</b>	25,215
Gain on disposal of scrap materials	<b>30,187</b>	26,751
Gain on disposal of an associate	–	1,192
Net claims income on defective materials purchased	–	31,095
Net foreign exchange gain	–	89,974
Bargain purchase gain arising from acquisition of a subsidiary	–	3,402
Government grants and subsidies (note)	<b>992,859</b>	905,300
Sundry income	<b>181,224</b>	146,218
	<b>1,236,985</b>	1,229,147

Note: Government grants and subsidies mainly related to cash subsidies in respect of operating and research and development activities from government which are either unconditional grants or grants with conditions having been satisfied.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**9. PROFIT BEFORE TAXATION**

Profit before taxation is arrived at after charging/(crediting):

	2018 RMB'000	2017 RMB'000 (Note a)
<b>(a) Finance income and costs</b>		
<b>Finance costs</b>		
Effective interest expense on senior notes	–	8,908
Coupon expense on senior notes	–	96,714
Loss on early redemption of senior notes	–	52,015
Effective interest expense on bonds payables (note 23)	8,624	–
Coupon expense on bonds payables	67,769	–
Interest on bank borrowings	37,537	4,653
	<b>113,930</b>	162,290
<b>Finance income</b>		
Bank and other interest income	(192,922)	(127,057)
<b>Net finance (income)/costs</b>	<b>(78,992)</b>	35,233
<b>(b) Staff costs (including directors' emoluments (note 13)) (note b)</b>		
Salaries, wages and other benefits	5,679,709	4,241,354
Retirement benefit scheme contributions	378,262	269,085
Equity settled share-based payments (note 31)	14,594	27,724
	<b>6,072,565</b>	4,538,163
<b>(c) Other items</b>		
Cost of inventories (note b)	85,081,727	74,779,337
Auditor's remuneration	7,203	7,443
Depreciation (note b)	978,233	742,679
Amortisation of land lease prepayments	57,223	48,072
Amortisation of intangible assets (related to capitalised product development costs)	1,377,705	1,147,257
Research and development costs	548,653	331,241
Net loss on disposal of property, plant and equipment	64,482	34,074
Net foreign exchange loss/(gain)	328,355	(89,974)
Net claims paid/(income) on defective materials purchased	53,470	(31,095)
Operating leases charges on premises	17,589	18,525
Impairment loss on trade and other receivables	9,659	–
Bad debts written off	2,219	67,371

Notes:

- (a) The Group has initially applied HKFRS 9 and HKFRS 15 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.
- (b) Cost of inventories included RMB4,851,363,000 (2017: RMB3,643,052,000) relating to staff costs and depreciation, which amounts were also included in the respective total amounts disclosed separately for each of these types of expenses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**10. TAXATION**

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Current tax:		
– PRC enterprise income tax	<b>2,500,577</b>	2,283,957
– Over-provision in prior years	<b>(1,457)</b>	(118,079)
	<b>2,499,120</b>	2,165,878
Deferred tax (note 26)	<b>(214,545)</b>	(127,306)
	<b>2,284,575</b>	2,038,572

Hong Kong profits tax has not been provided as the Hong Kong incorporated companies within the Group had no estimated assessable profits in Hong Kong for the years ended 31 December 2018 and 2017.

The income tax provision of the Group in respect of its operations in the PRC has been calculated at the applicable tax rate on the estimated assessable profits for the year based on the existing legislation, interpretations and practises in respect thereof. The PRC enterprise income tax rate is 25% (2017: 25%).

Pursuant to the relevant laws and regulations in the PRC, certain PRC subsidiaries of the Group obtained the High and New Technology Enterprises qualification. Accordingly, they enjoyed a preferential income tax rate of 15% for the years ended 31 December 2018 and 2017.

The share of results of associates and joint ventures in the consolidated income statement is after income taxes accrued in the appropriate income tax jurisdictions.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**10. TAXATION (Continued)**

The tax charge for the year can be reconciled from the profit before taxation per consolidated income statement as follows:

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Profit before taxation	<b>14,958,973</b>	12,773,961
Tax at the PRC enterprise income tax rate of 25% (2017: 25%)	<b>3,739,743</b>	3,193,490
Tax effect of expenses not deductible	<b>185,479</b>	207,029
Tax effect of non-taxable income	<b>(105,529)</b>	(11,152)
Tax effect of unrecognised tax losses	<b>60,197</b>	42,594
Utilisation of previously unrecognised tax losses	<b>(20,482)</b>	(38,438)
Tax effect of different tax rates of entities operating in other jurisdictions	<b>15,860</b>	(65,338)
Deferred tax charge on distributable profits withholding tax (note 26)	<b>10,068</b>	69,899
Effect of tax concessions and lower tax rates for certain PRC subsidiaries	<b>(1,599,304)</b>	(1,241,433)
Over-provision in prior years	<b>(1,457)</b>	(118,079)
Tax expense for the year	<b>2,284,575</b>	2,038,572

The Group is also liable to withholding tax on dividends to be distributed from the Group's subsidiaries in the PRC in respect of their profits generated from 1 January 2008. Deferred tax liabilities of RMB10,068,000 (2017: RMB69,899,000) was recognised for the distributable profits not yet paid out as dividends that are generated by the PRC subsidiaries of the Company during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**11. DIVIDENDS****(a) Dividends payable to equity holders of the Company attributable to the year:**

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Final dividend proposed after the reporting date of Hong Kong dollars ("HK\$") 0.35 (2017: HK\$0.29) per ordinary share	<b>2,767,091</b>	2,159,774

The final dividend proposed after the reporting date has not been recognised as a liability as at 31 December 2018.

**(b) Dividends payable to equity holders of the Company attributable to the previous financial year, approved and paid during the year:**

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year of HK\$0.29 (2017: HK\$0.12) per ordinary share	<b>2,160,828</b>	960,054

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**12. EARNINGS PER SHARE****(a) Basic earnings per share**

The calculation of the basic earnings per share is based on the profit attributable to equity holders of the Company of RMB12,553,207,000 (2017: RMB10,633,715,000) and weighted average number of ordinary shares of 8,976,494,672 shares (2017: 8,932,151,751 shares), calculated as follows:

***Weighted average number of ordinary shares***

	<b>2018</b>	2017
Issued ordinary shares as at 1 January	<b>8,970,514,540</b>	8,882,861,540
Effect of shares options exercised	<b>5,980,132</b>	49,290,211
Weighted average number of ordinary shares as at 31 December	<b>8,976,494,672</b>	8,932,151,751

**(b) Diluted earnings per share**

The calculation of diluted earnings per share is based on the profit attributable to equity holders of the Company of RMB12,553,207,000 (2017: RMB10,633,715,000) and the weighted average number of ordinary shares (diluted) of 9,174,027,477 shares (2017: 9,155,568,487 shares), calculated as follows:

***Weighted average number of ordinary shares (diluted)***

	<b>2018</b>	2017
Weighted average number of ordinary shares (basic) as at 31 December	<b>8,976,494,672</b>	8,932,151,751
Effect of deemed issue of shares under the Company's share option scheme	<b>197,532,805</b>	223,416,736
Weighted average number of ordinary shares (diluted) as at 31 December	<b>9,174,027,477</b>	9,155,568,487

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

## 13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

## (a) Directors' and chief executive's remuneration

Directors' and chief executive's emoluments, disclosed pursuant to the Listing Rules and section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

2018

Name of director	Equity settled share-based payments							Total
	Discretionary bonus			Retirement scheme contribution		Sub-total		
	Fees	Salaries	Rental allowance					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000		RMB'000	
Executive directors								
Mr. An Cong Hui	8	-	-	-	-	8	111	119
Mr. Ang Siu Lun, Lawrence	-	2,781	1,412	-	30	4,223	543	4,766
Mr. Gui Sheng Yue (Chief Executive Officer)	-	2,998	1,522	553	30	5,103	611	5,714
Mr. Li Dong Hui, Daniel (Vice Chairman)	8	-	-	-	-	8	243	251
Mr. Li Shu Fu (Chairman)	-	324	-	-	15	339	-	339
Ms. Wei Mei	8	-	-	-	-	8	368	376
Mr. Yang Jian (Vice Chairman)	8	-	-	-	-	8	213	221
Non-executive director								
Mr. Carl Peter Edmund Moriz Forster	-	-	-	-	-	-	56	56
Independent non-executive directors								
Mr. An Qing Heng	149	-	-	-	-	149	36	185
Mr. Lee Cheuk Yin, Dannis	149	-	-	-	-	149	16	165
Mr. Wang Yang	149	-	-	-	-	149	56	205
Mr. Yeung Sau Hung, Alex	149	-	-	-	-	149	16	165
	628	6,103	2,934	553	75	10,293	2,269	12,562

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)****(a) Directors' and chief executive's remuneration (Continued)**

Directors' and chief executive's emoluments, disclosed pursuant to the Listing Rules and section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows (Continued):

2017

Name of director	Fees RMB'000	Salaries RMB'000	Discretionary bonus RMB'000	Rental allowance RMB'000	Retirement scheme contribution RMB'000	Sub-total RMB'000	Equity settled share-based payments RMB'000 (note)	Total RMB'000
<b>Executive directors</b>								
Mr. An Cong Hui	9	–	–	–	–	9	248	257
Mr. Ang Siu Lun, Lawrence	–	2,843	1,238	–	32	4,113	1,285	5,398
Mr. Gui Sheng Yue (Chief Executive Officer)	–	3,065	1,335	537	32	4,969	1,452	6,421
Mr. Li Dong Hui, Daniel (Vice Chairman)	9	–	–	–	–	9	368	377
Mr. Li Shu Fu (Chairman)	–	351	–	–	16	367	–	367
Ms. Wei Mei	9	–	–	–	–	9	573	582
Mr. Yang Jian (Vice Chairman)	9	–	–	–	–	9	474	483
<b>Non-executive director</b>								
Mr. Carl Peter Edmund Moriz Forster	–	–	–	–	–	–	141	141
<b>Independent non- executive directors</b>								
Mr. An Qing Heng	162	–	–	–	–	162	106	268
Mr. Lee Cheuk Yin, Dannis	162	–	–	–	–	162	81	243
Mr. Wang Yang	162	–	–	–	–	162	141	303
Mr. Yeung Sau Hung, Alex	162	–	–	–	–	162	81	243
	684	6,259	2,573	537	80	10,133	4,950	15,083

Mr. Carl Peter Edmund Moriz Forster waived his director fee during the years ended 31 December 2018 and 2017. No other director waived any emoluments during the years ended 31 December 2018 and 2017.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (Continued)****(a) Directors' and chief executive's remuneration (Continued)**

Note:

These represent the estimated value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policy for equity settled share-based payments as set out in note 4(n) and, in accordance with that policy, includes adjustments to reverse amounts accrued in previous years where grants of equity instruments are forfeited prior to vesting.

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Options" in the Directors' Report and in note 31 to the consolidated financial statements.

**(b) Employees' emoluments**

Of the five individuals with the highest emoluments, two (2017: two) were directors of the Company whose emoluments are included in the disclosures in note 13(a) above. The aggregate of the emoluments in respect of the other three (2017: three) individuals are as follows:

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
Basic salaries and allowances	<b>3,953</b>	4,312
Retirement scheme contributions	<b>60</b>	65
Equity settled share-based payments	<b>361</b>	943
	<b>4,374</b>	5,320

The emoluments of the three (2017: three) individuals with the highest emoluments are within the following bands:

	<b>2018</b> <b>Number of</b> <b>individuals</b>	2017 Number of individuals
HK\$1,000,001 – HK\$1,500,000	<b>2</b>	–
HK\$1,500,001 – HK\$2,000,000	<b>–</b>	2
HK\$2,500,001 – HK\$3,000,000	<b>1</b>	1
	<b>3</b>	3

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**14. PROPERTY, PLANT AND EQUIPMENT**

	Construction in progress RMB'000	Leasehold buildings RMB'000	Plant and machinery RMB'000	Leasehold improvements RMB'000	Furniture and fixtures, office equipment and motor vehicles RMB'000	Total RMB'000
<b>COST</b>						
At 1 January 2017	2,319,892	4,605,593	6,233,643	7,112	812,786	13,979,026
Additions	3,179,771	68,295	115,588	368	198,497	3,562,519
Transfer	(2,861,666)	1,412,113	1,301,589	–	147,964	–
Disposals	(3,686)	(21,793)	(195,893)	(138)	(55,195)	(276,705)
Disposed of through disposal of subsidiaries	(742,293)	(996,574)	(771,129)	–	(110,103)	(2,620,099)
Acquisition through business combinations	362,254	574,262	2,294,061	–	50,446	3,281,023
At 31 December 2017 and 1 January 2018	2,254,272	5,641,896	8,977,859	7,342	1,044,395	17,925,764
Additions	2,791,592	62,495	48,341	9,616	334,030	3,246,074
Transfer	(4,074,520)	968,790	2,969,533	–	136,197	–
Disposals	–	(87,978)	(152,213)	(49)	(43,353)	(283,593)
Acquisition through business combinations (note 33)	4,903,239	1,457,282	889,076	–	21,441	7,271,038
<b>At 31 December 2018</b>	<b>5,874,583</b>	<b>8,042,485</b>	<b>12,732,596</b>	<b>16,909</b>	<b>1,492,710</b>	<b>28,159,283</b>
<b>DEPRECIATION</b>						
At 1 January 2017	–	631,177	2,287,762	5,533	404,241	3,328,713
Charge for the year	–	142,844	489,194	985	109,656	742,679
Written back on disposals	–	(5,802)	(157,750)	(136)	(23,153)	(186,841)
Disposed of through disposal of subsidiaries	–	(2,290)	(6,164)	–	(3,276)	(11,730)
At 31 December 2017 and 1 January 2018	–	765,929	2,613,042	6,382	487,468	3,872,821
Charge for the year	–	194,907	628,968	1,014	153,344	978,233
Written back on disposals	–	(13,111)	(73,835)	–	(27,442)	(114,388)
<b>At 31 December 2018</b>	<b>–</b>	<b>947,725</b>	<b>3,168,175</b>	<b>7,396</b>	<b>613,370</b>	<b>4,736,666</b>
<b>NET BOOK VALUE</b>						
<b>At 31 December 2018</b>	<b>5,874,583</b>	<b>7,094,760</b>	<b>9,564,421</b>	<b>9,513</b>	<b>879,340</b>	<b>23,422,617</b>
<b>At 31 December 2017</b>	<b>2,254,272</b>	<b>4,875,967</b>	<b>6,364,817</b>	<b>960</b>	<b>556,927</b>	<b>14,052,943</b>

The title certificates of certain buildings with an aggregate carrying value of RMB868,848,000 (2017: RMB1,010,715,000) are yet to be obtained as at 31 December 2018 and 2017. The directors of the Company are of the opinion that the relevant certificates would be obtained in the near future, the Group is entitled to lawfully and validly occupy and use the buildings, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2018 and 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**15. INTANGIBLE ASSETS**

	<b>Capitalised product development costs RMB'000</b>
<b>COST</b>	
At 1 January 2017	8,568,260
Additions	3,949,951
Acquisition through business combinations	1,293,709
Disposals	(501,671)
At 31 December 2017 and 1 January 2018	13,310,249
Additions	5,031,452
Acquisition through business combinations (note 33)	792,312
Written off	(33,370)
<b>At 31 December 2018</b>	<b>19,100,643</b>
<b>AMORTISATION</b>	
At 1 January 2017	2,106,451
Charge for the year	1,147,257
Disposals	(495,232)
At 31 December 2017 and 1 January 2018	2,758,476
Charge for the year	1,377,705
Written off	(28,726)
<b>At 31 December 2018</b>	<b>4,107,455</b>
<b>NET BOOK VALUE</b>	
<b>At 31 December 2018</b>	<b>14,993,188</b>
<b>At 31 December 2017</b>	<b>10,551,773</b>

The amortisation charge for the year is included in "Administrative expenses" in the consolidated income statement.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**16. LAND LEASE PREPAYMENTS**

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
The Group's land lease prepayments comprise:		
Outside Hong Kong, held on:		
– Leases of between 10 to 50 years	<b>3,334,573</b>	2,171,719
Analysed for reporting purposes as:		
Current assets	<b>66,538</b>	47,810
Non-current assets	<b>3,268,035</b>	2,123,909
	<b>3,334,573</b>	2,171,719
Opening net carrying amount	<b>2,171,719</b>	2,045,770
Additions	<b>178,985</b>	240,128
Acquisition through business combinations (note 33)	<b>1,041,092</b>	209,263
Disposed of through disposal of subsidiaries	<b>–</b>	(275,370)
Annual amortisation charges of land lease prepayments	<b>(57,223)</b>	(48,072)
Closing net carrying amount	<b>3,334,573</b>	2,171,719

The land use right certificates of certain lands with an aggregate carrying value of RMB869,779,000 (2017: RMB672,984,000) are yet to be obtained as at 31 December 2018 and 2017. The directors of the Company are of the opinion that the relevant certificates would be obtained in the near future, the Group is entitled to lawfully and validly occupy and use the lands, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2018 and 2017.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**17. GOODWILL**

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
<b>Carrying amount</b>		
At 1 January	<b>16,079</b>	6,916
Arising on business combinations (note 33)	<b>10,335</b>	9,163
At 31 December	<b>26,414</b>	16,079

The carrying amount of goodwill is allocated to the cash-generating units of manufacturing of (a) complete knock down kits and (b) vehicle engines. The recoverable amounts of the cash-generating units are determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management. The cash flows are discounted using a discount rate which is pre-tax and reflects specific risks relating to the relevant segments. The values assigned to the key assumptions on market development and discount rates are consistent with external information sources. During the year ended 31 December 2018, the directors of the Company conducted a review of goodwill and no impairment loss in respect of goodwill has been recognised (2017: RMBNil).

**18. INTERESTS IN ASSOCIATES**

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Share of net assets	<b>408,018</b>	372,709
Goodwill	<b>663</b>	663
Impairment loss recognised	<b>(4,012)</b>	(4,012)
	<b>404,669</b>	369,360
Represented by:		
Cost of unlisted investments	<b>392,112</b>	296,854
Share of post-acquisition results and other comprehensive income	<b>33,133</b>	93,082
Impairment loss recognised	<b>(4,012)</b>	(4,012)
Exchange realignment	<b>(16,564)</b>	(16,564)
	<b>404,669</b>	369,360

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**18. INTERESTS IN ASSOCIATES (Continued)**

Details of the Group's interests in associates, which are unlisted corporate entity whose quoted market price is not available and accounted for using the equity method in the consolidated financial statements as at 31 December 2018 and 2017, are as follows:

Name of associate	Place of establishments and operations	Form of business structure	Particulars of issued and paid up registered capital	Attributable equity interest held by the Group		Principal activities
				2018	2017	
Mando (Ningbo) Automotive Parts Co., Limited ("Mando (Ningbo)") 萬都(寧波)汽車零部件有限公司	PRC	Incorporated	United States dollars ("US\$") 85,000,000	<b>35%</b>	35%	Manufacturing of automobile parts and components
Closed Joint Stock Company BELGEE ("BELGEE")	Republic of Belarus ("Belarus")	Incorporated	Belarusian Ruble ("BYN") 166,225,000 (2017: BYN97,565,000)	<b>36.1%</b>	31.7%	Production, marketing and sales of vehicles
Faurecia Emissions Control Technologies (Ningbo) Co., Ltd.* ("Faurecia Emissions") 佛吉亞排氣控制技術(寧波)有限公司	PRC	Incorporated	US\$7,900,000	<b>9%</b>	9%	Manufacturing of emission control systems
PT Geely Mobil Indonesia	Republic of Indonesia	Incorporated	US\$3,260,200	<b>30%</b>	30%	Production, marketing and sales of vehicles

\* The English translation of the name of the company established in the PRC is for reference only. The official name of this company is in Chinese.

All associates are indirectly held by the Company.

During the year ended 31 December 2018, BELGEE effected an increase in registered capital whereby the Group and other investors injected additional capital to BELGEE amounting to BYN29,062,000 (equivalent to approximately RMB95,258,000) and BYN39,598,000 (equivalent to approximately RMB129,939,000), respectively. Upon the completion of the capital increase, the registered capital of BELGEE changed from BYN97,565,000 (equivalent to approximately RMB394,249,000) to BYN166,225,000 (equivalent to approximately RMB619,446,000). As a result of such an increase in registered capital, the Group's equity interests in BELGEE increased from 31.7% to 36.1% and the Group is still able to exert significant influence over the financial and operating activities of BELGEE. Accordingly, the Group continues to account for such investment as an associate.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**18. INTERESTS IN ASSOCIATES (Continued)**

During the year ended 31 December 2017, BELGEE effected an increase in registered capital whereby the Group and other investors injected additional capital to BELGEE amounting to BYN10,844,000 (equivalent to approximately RMB38,131,000) and BYN26,698,000 (equivalent to approximately RMB93,879,000), respectively. Upon the completion of the capital increase, the registered capital of BELGEE changed from BYN60,023,000 (equivalent to approximately RMB262,239,000) to BYN97,565,000 (equivalent to approximately RMB394,249,000).

The Group invests in Mando (Ningbo) as a strategic supplier of automobile parts and components of the Group.

The Group retains significant influence over Faurecia Emissions through the power to nominate representative on the board of directors.

Summarised financial information of Mando (Ningbo), the Group's material associate, adjusted for any differences in accounting policies, and reconciled to the carrying amount in the consolidated financial statements, are disclosed below:

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Non-current assets	<b>327,074</b>	289,752
Current assets	<b>2,379,386</b>	3,024,259
Current liabilities	<b>(1,914,846)</b>	(2,554,136)
Non-current liabilities	<b>(10,940)</b>	(11,676)
Net assets	<b>780,674</b>	748,199
Revenue	<b>3,141,442</b>	3,346,577
Profit for the year	<b>32,475</b>	117,830
Other comprehensive income for the year	–	–
Total comprehensive income for the year	<b>32,475</b>	117,830
Dividend received from the associate	–	–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**18. INTERESTS IN ASSOCIATES (Continued)**

Reconciliation of the above summarised financial information to the carrying amount of the Group's interests in Mando (Ningbo) recognised in the consolidated financial statements:

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Net assets of Mando (Ningbo)	<b>780,674</b>	748,199
The Group's effective interests in Mando (Ningbo)	<b>35%</b>	35%
Carrying amount in the consolidated financial statements, represented by the Group's share of net assets of Mando (Ningbo)	<b>273,236</b>	261,870

Aggregate financial information of associates that are not individually material:

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Aggregate amounts of the Group's share of loss for the year	<b>(71,315)</b>	(2,029)
Aggregate amounts of the Group's share of other comprehensive income for the year	<b>—</b>	—
Aggregate carrying amount of the Group's interests in these associates	<b>131,433</b>	107,490

**19. INTERESTS IN JOINT VENTURES**

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Share of net assets	<b>5,917,618</b>	4,435,530
Represented by:		
Cost of unlisted investments	<b>5,447,522</b>	4,470,000
Unrealised gain on disposal of a subsidiary to a joint venture	<b>(14,943)</b>	(14,943)
Share of post-acquisition results and other comprehensive income/ (expense)	<b>485,039</b>	(19,527)
	<b>5,917,618</b>	4,435,530



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**19. INTERESTS IN JOINT VENTURES (Continued)**

Details of the Group's principal joint ventures which are unlisted corporate entities whose quoted market price is not available and accounted for using the equity method in the consolidated financial statements as at 31 December 2018 and 2017, are as follows:

Name of joint venture	Place of establishments and operations	Form of business structure	Particulars of registered capital	Proportion of ownership interest held by the Group		Principal activities
				2018	2017	
Genius Auto Finance Company Limited <sup>#</sup> ("Genius AFC") 吉致汽車金融有限公司	PRC	Incorporated	RMB2,000,000,000 (2017: RMB900,000,000)	<b>80%</b>	80%	Vehicles financing business
LYNK & CO Investment Co., Ltd. <sup>#</sup> ("LYNK & CO Investment") 領克投資有限公司	PRC	Incorporated	RMB7,500,000,000	<b>50%</b>	50%	Manufacturing and sales of vehicles under the "Lynk & Co" brand
Zhejiang Geely AISIN Automatic Transmission Company Limited <sup>#</sup> ("Zhejiang AISIN") 浙江吉利愛信自動變速器有限公司	PRC	Incorporated	US\$117,000,000	<b>40%</b>	–	Manufacturing and sale of front-wheel drive 6-speed automatic transmissions and related parts and components

<sup>#</sup> The English translation of the names of the companies established in the PRC is for reference only. The official names of the companies are in Chinese.

<sup>\*</sup> Genius AFC is directly held by the Company.

**Zhejiang AISIN**

On 24 April 2018, the Group entered into a joint venture agreement with AISIN AW Co., Ltd. ("AISIN AW"), an independent third party and a subsidiary of AISIN SEIKI Company Limited, pursuant to which the parties agreed to establish a joint venture company, Zhejiang AISIN, to principally engage in the manufacturing and sale of front-wheel drive 6-speed automatic transmissions and related parts and components. The registered capital of Zhejiang AISIN was US\$117,000,000 (equivalent to approximately RMB733,590,000). Zhejiang AISIN was held as to 40% by the Group and as to 60% by AISIN AW. Pursuant to the joint venture agreement, the Group and AISIN AW will contribute to the capital of Zhejiang AISIN by cash as to 40% (US\$46,800,000 or equivalent to approximately RMB293,436,000) and 60% (US\$70,200,000 or equivalent to approximately RMB440,154,000), respectively. During the year ended 31 December 2018, the Group contributed US\$14,000,000 (equivalent to approximately RMB97,522,000) to Zhejiang AISIN. Detail of the capital commitments as at 31 December 2018 are set out in note 29(a). The board of directors of Zhejiang AISIN was setup according to the shareholding ratio by the shareholders. Pursuant to the joint venture agreement, unanimous resolution of all directors for certain key corporate matters is required. Therefore, Zhejiang AISIN is a joint venture company of the Group and its financial results were accounted for in the consolidated financial statements of the Group using the equity method.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**19. INTERESTS IN JOINT VENTURES (Continued)****LYNK & CO Investment**

On 4 August 2017, the Group entered into a joint venture agreement with Zhejiang Haoqing Automobile Manufacturing Company Limited# (“Zhejiang Haoqing”) 浙江豪情汽車製造有限公司 and Volvo Car (China) Investment Company Limited# (“VCI”) 沃爾沃汽車(中國)投資有限公司, fellow subsidiaries owned by the Company’s ultimate holding company, for the establishment of a joint venture, LYNK & CO Investment, to engage in the manufacturing and sales of vehicles under the “Lynk & Co” brand. LYNK & CO Investment was held as to 50% by the Group, as to 20% by Zhejiang Haoqing and as to 30% by VCI. Pursuant to the joint venture agreement, the board of directors of LYNK & CO Investment consists of four directors, of whom two are nominated by the Group, one is nominated by Zhejiang Haoqing, and one is nominated by VCI. Pursuant to the joint venture agreement, unanimous consent from the three shareholders is needed as certain key corporate matters of LYNK & CO Investment require an unanimous resolution of all directors (present in person or represented by proxy for the board meeting) of LYNK & CO Investment. Therefore, LYNK & CO Investment is under the joint control of the three shareholders. The three shareholders have the rights to the net assets of LYNK & CO Investment. Accordingly, the investment in LYNK & CO Investment was recognised as a joint venture of the Group and accounted for using the equity method.

**Genius AFC**

Genius AFC was established in August 2015, and was held as to 80% by the Company and as to 20% by BNP Paribas Personal Finance which engages in the vehicles financing business in the PRC. Pursuant to the joint venture agreement, the board of directors was setup according to the respective shareholding ratio, unanimous consent from the Company and BNP Paribas Personal Finance is required as either certain key corporate matters of Genius AFC require a positive vote from BNP Paribas Personal Finance or unanimous resolution of all directors of Genius AFC. Therefore, Genius AFC is under the joint control of the Company and BNP Paribas Personal Finance. Both of the Group and BNP Paribas Personal Finance have the rights to the net assets of Genius AFC. Accordingly, the investment in Genius AFC was recognised as a joint venture of the Group and accounted for using the equity method.

During the year ended 31 December 2018, the registered capital of Genius AFC increased by RMB1,100,000,000 from RMB900,000,000 to RMB2,000,000,000 whereby the Company and BNP Paribas Personal Finance injected additional capital in proportionate to their existing shareholding in Genius AFC amounted to RMB880,000,000 and RMB220,000,000, respectively.

As at 31 December 2018, the aggregate bank balances deposited by the Group with Genius AFC amounted to approximately RMB2,785,588,000 (2017: RMB3,100,153,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**19. INTERESTS IN JOINT VENTURES (Continued)**

Summarised financial information of the Zhejiang AISIN, LYNK & CO Investment and its subsidiaries ("LYNK & CO Group") and Genius AFC adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated statement of financial position, are disclosed below:

	<b>Zhejiang AISIN</b>	<b>LYNK &amp; CO Group</b>		<b>Genius AFC</b>	
	<b>2018 RMB'000</b>	<b>2018 RMB'000</b>	2017 RMB'000	<b>2018 RMB'000</b>	2017 RMB'000
Non-current assets	<b>322</b>	<b>7,011,983</b>	6,666,672	614,708	347,162
Current assets	<b>241,626</b>	<b>7,802,938</b>	5,339,868	21,237,842	10,053,066
Current liabilities	<b>(4,547)</b>	<b>(6,345,875)</b>	(4,576,894)	(15,134,857)	(9,480,666)
Non-current liabilities	<b>–</b>	<b>(371,789)</b>	–	(4,481,478)	–
<b>Net assets</b>	<b>237,401</b>	<b>8,097,257</b>	7,429,646	2,236,215	919,562
The above amounts of assets and liabilities include the following:					
Cash and cash equivalents	<b>240,872</b>	<b>774,368</b>	743,202	2,225,622	514,635
Current financial liabilities (excluding trade and other payables and provisions)	<b>–</b>	<b>–</b>	–	(13,160,936)	(8,293,777)
Non-current financial liabilities (excluding trade and other payables and provisions)	<b>–</b>	<b>–</b>	–	(4,481,478)	–
Revenue	<b>–</b>	<b>17,199,382</b>	900,483	1,332,337	469,878
(Loss)/Profit for the year/period	<b>(6,404)</b>	<b>667,611</b>	(70,354)	216,653	47,900
Other comprehensive income for the year/period	<b>–</b>	<b>–</b>	–	–	–
Total comprehensive (expense)/income for the year/period	<b>(6,404)</b>	<b>667,611</b>	(70,354)	216,653	47,900
Dividend received from the joint ventures	<b>–</b>	<b>–</b>	–	–	–
The above (losses)/profits for the year/period including the following:					
Depreciation and amortisation	<b>–</b>	<b>(666,628)</b>	(48,943)	(8,225)	(6,429)
Interest income	<b>73</b>	<b>9,089</b>	8,911	1,308,113	461,555
Interest expense	<b>–</b>	<b>–</b>	–	(604,897)	(157,111)
Income tax (expense)/income	<b>–</b>	<b>(261,628)</b>	19,023	(72,471)	(16,578)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**19. INTERESTS IN JOINT VENTURES (Continued)**

Reconciliation of the above summarised financial information to the carrying amount of the Group's interests in joint ventures recognised in the consolidated statement of financial position:

	<b>Zhejiang</b>		<b>LYNK &amp; CO Group</b>	<b>Genius AFC</b>	
	<b>AISIN</b>				
	<b>2018</b>	<b>2018</b>		<b>2018</b>	<b>2017</b>
	<b>RMB'000</b>	<b>RMB'000</b>	RMB'000	<b>RMB'000</b>	RMB'000
Net assets of the joint venture	<b>237,401</b>	<b>8,097,257</b>	7,429,646	<b>2,236,215</b>	919,562
The Group's effective interests in the joint venture	<b>40%</b>	<b>50%</b>	50%	<b>80%</b>	80%
The Group's share of the net assets of the joint venture	<b>94,960</b>	<b>4,048,629</b>	3,714,823	<b>1,788,972</b>	735,650
Unrealised gain on disposal of a subsidiary to a joint venture	<b>–</b>	<b>(14,943)</b>	(14,943)	<b>–</b>	–
Carrying amount of the Group's interests in joint ventures	<b>94,960</b>	<b>4,033,686</b>	3,699,880	<b>1,788,972</b>	735,650

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**20. INVENTORIES****(a) Inventories in the consolidated statement of financial position comprise:**

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Raw materials	<b>1,890,315</b>	1,317,330
Work in progress	<b>328,753</b>	382,784
Finished goods	<b>1,878,312</b>	4,327,198
	<b>4,097,380</b>	6,027,312

**(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:**

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Carrying amount of inventories sold	<b>85,081,727</b>	74,779,337

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**21. TRADE AND OTHER RECEIVABLES**

	Note	As at 31 December 2018 RMB'000	As at 1 January 2018 RMB'000	As at 31 December 2017 RMB'000 (Note)
<b>Trade and notes receivables</b>				
Trade receivables, net of loss allowance				
– Third parties		<b>338,158</b>	357,472	377,966
– Joint ventures		<b>145,183</b>	–	–
– Associates		<b>269,538</b>	256,308	271,002
– Related companies controlled by the substantial shareholder of the Company		<b>330,812</b>	48,928	51,733
	(a)	<b>1,083,691</b>	662,708	700,701
Notes receivables	(b)	<b>16,988,253</b>	28,790,926	28,790,926
		<b>18,071,944</b>	29,453,634	29,491,627
<b>Deposit, prepayment and other receivables</b>				
Prepayment to suppliers				
– Third parties		<b>151,444</b>	129,080	129,080
– Related companies controlled by the substantial shareholder of the Company		<b>1,974</b>	847,093	847,093
		<b>153,418</b>	976,173	976,173
Deposits paid for acquisition of property, plant and equipment		<b>609,953</b>	600,692	600,692
VAT and other taxes receivables		<b>3,592,041</b>	1,877,788	1,877,788
Utility deposits and other receivables		<b>414,586</b>	208,595	208,595
		<b>4,769,998</b>	3,663,248	3,663,248
Amounts due from related companies controlled by the substantial shareholder of the Company	(c)	<b>23,032</b>	323,433	323,433
		<b>4,793,030</b>	3,986,681	3,986,681
		<b>22,864,974</b>	33,440,315	33,478,308

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**21. TRADE AND OTHER RECEIVABLES (Continued)****(a) Trade receivables**

The Group allows average credit periods ranged from 30 days to 90 days to its PRC customers. Further details on the Group's credit policy are set out in note 35. The following is an ageing analysis of the trade receivables of the PRC customers, based on invoice date and net of loss allowance, at the reporting date:

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
0 – 60 days	<b>478,099</b>	167,875
61 – 90 days	<b>26,919</b>	7,689
Over 90 days	<b>80,998</b>	67,476
	<b>586,016</b>	243,040

For overseas customers, the Group allows average credit periods ranged from 30 days to 720 days. The following is an ageing analysis of the trade receivables of the overseas customers, based on invoice date and net of loss allowance, at the reporting date:

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
0 – 60 days	<b>285,290</b>	102,041
61 – 90 days	<b>10,233</b>	84,174
91 – 365 days	<b>148,989</b>	155,309
Over 365 days	<b>53,163</b>	116,137
	<b>497,675</b>	457,661

As at 31 December 2018, 1% (2017: 1%) of the total trade receivables was due from the Group's five largest customers.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 21. TRADE AND OTHER RECEIVABLES (Continued)

#### (b) Notes receivables

All notes receivables are denominated in RMB. As at 31 December 2018 and 2017, all notes receivables were guaranteed by established banks in the PRC and have maturities of less than six months from the reporting date.

#### (c) Amounts due from related companies

The amounts due are unsecured, interest-free and repayable on demand.

Except for trade and other receivables of RMB12,509,000 (2017: RMB140,027,000) which are expected to be recovered after one year from the reporting date, all other trade and other receivables are expected to be recovered or recognised as an expense within one year.

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 35.

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**22. CASH FLOW INFORMATION****Reconciliation of liabilities arising from financing activities**

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	<b>Dividends payable RMB'000</b>	<b>Bank borrowings RMB'000</b>	<b>Senior notes RMB'000</b>	<b>Bonds payables RMB'000</b>	<b>Total RMB'000</b>
At 1 January 2017	–	174,375	2,068,316	–	2,242,691
<b>Change from financing cash flows:</b>					
Proceeds from new bank borrowings	–	1,296,460	–	–	1,296,460
Repayment of bank borrowings	–	(174,375)	–	–	(174,375)
Redemption of senior notes	–	–	(2,033,536)	–	(2,033,536)
Other borrowing costs paid	–	(4,104)	(122,846)	–	(126,950)
Dividends paid	(960,054)	–	–	–	(960,054)
Total changes from financing cash flows	(960,054)	1,117,981	(2,156,382)	–	(1,998,455)
<b>Exchange adjustments</b>	–	–	(95,703)	–	(95,703)
<b>Other changes (note):</b>					
Interest expenses	–	4,653	105,622	–	110,275
Loss on early redemption of senior notes	–	–	52,015	–	52,015
Dividends declared	960,054	–	–	–	960,054
Others	–	(549)	26,132	–	25,583
Total other changes	960,054	4,104	183,769	–	1,147,927
At 31 December 2017 and 1 January 2018	–	1,296,460	–	–	1,296,460
<b>Change from financing cash flows:</b>					
Initial fair value on the date of issuance	–	–	–	1,927,161	1,927,161
Other borrowing costs paid	–	(38,041)	–	(35,257)	(73,298)
Dividends paid	(2,160,828)	–	–	–	(2,160,828)
Total changes from financing cash flows	(2,160,828)	(38,041)	–	1,891,904	(306,965)
<b>Exchange adjustments</b>	–	78,820	–	112,037	190,857
<b>Other changes (note):</b>					
Interest expenses	–	37,537	–	76,393	113,930
Dividends declared	2,160,828	–	–	–	2,160,828
Others	–	504	–	(32,512)	(32,008)
Total other changes	2,160,828	38,041	–	43,881	2,242,750
<b>At 31 December 2018</b>	<b>–</b>	<b>1,375,280</b>	<b>–</b>	<b>2,047,822</b>	<b>3,423,102</b>

Note:

Other changes include interest accruals.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**23. BONDS PAYABLES**

On 18 January 2018, the Company issued bonds with an aggregate principal amount of US\$300,000,000 (equivalent to approximately RMB1,944,690,000) (the “Bonds”). The Bonds carried interest at 3.625% per annum, payable semi-annually in arrears on 25 January and 25 July of each year, and the maturity date was 25 January 2023.

The Bonds were listed on Singapore Exchange Securities Trading Limited. They constitute direct, unconditional, unsubordinated and (subject to the terms and conditions of the Bonds) unsecured obligations of the Company and shall at all times rank pari passu and without any preference among themselves. The payment obligations of the Company under the Bonds shall, save for such exceptions as may be provided by applicable law and subject to the terms and conditions of the Bonds, at all times rank pari passu with all its other present and future unsecured and unsubordinated obligations.

The carrying amount of the Bonds at initial recognition, net of transaction costs, amounted to US\$297,296,000 (equivalent to approximately RMB1,927,161,000) and the effective interest rate was 3.825% per annum. The Bonds were carried at amortised cost.

The movements of the Bonds during the year are set out below:

	<b>2018 RMB'000</b>
<b>Carrying amount</b>	
At 1 January	–
Initial fair value on the date of issuance	<b>1,927,161</b>
Exchange differences	<b>112,037</b>
Interest expenses	<b>8,624</b>
At 31 December	<b>2,047,822</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**24. TRADE AND OTHER PAYABLES**

	Note	2018 RMB'000	2017 RMB'000
<b>Trade and notes payables</b>			
Trade payables			
– Third parties		<b>23,562,370</b>	26,848,633
– An associate		<b>726,074</b>	1,252,227
– Related companies controlled by the substantial shareholder of the Company		<b>916,316</b>	2,492,942
	(a)	<b>25,204,760</b>	30,593,802
Notes payables	(b)	<b>2,076,400</b>	1,045,043
		<b>27,281,160</b>	31,638,845
<b>Other payables</b>			
Receipts in advance from customers	(c)		
– Third parties		<b>1,885,021</b>	7,980,480
– Related companies controlled by the substantial shareholder of the Company		<b>5,751</b>	3,992
		<b>1,890,772</b>	7,984,472
Deferred government grants which conditions have not been satisfied		<b>3,190,186</b>	3,379,500
Payables for acquisition of property, plant and equipment		<b>2,017,144</b>	1,074,740
Payables for acquisition of subsidiaries (notes 33(d) and 33(e))		<b>1,265,277</b>	–
Accrued staff salaries and benefits		<b>1,224,556</b>	908,966
VAT and other taxes payables		<b>167,710</b>	104,388
Other accrued charges		<b>2,427,879</b>	2,430,232
		<b>12,183,524</b>	15,882,298
Amounts due to related companies controlled by the substantial shareholder of the Company	(d)	<b>1,752,809</b>	9,412
Amount due to ultimate holding company	(d)	<b>220,543</b>	1,974
		<b>14,156,876</b>	15,893,684
		<b>41,438,036</b>	47,532,529

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**24. TRADE AND OTHER PAYABLES (Continued)****(a) Trade payables**

The following is an ageing analysis of trade payables, based on invoice date, at the reporting date:

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
0 – 60 days	<b>20,013,747</b>	27,331,331
61 – 90 days	<b>2,586,200</b>	1,849,868
Over 90 days	<b>2,604,813</b>	1,412,603
	<b>25,204,760</b>	30,593,802

Trade payables do not carry interest. The average credit period on purchase of goods is 60 days.

**(b) Notes payables**

All notes payables are denominated in RMB and are notes paid and/or payable to third parties for settlement of trade payables. As at 31 December 2018 and 2017, all notes payables had maturities of less than six months from the reporting date.

As at 31 December 2018, the Group pledged bank deposits of RMB19,392,000 (2017: RMB36,043,000) to secure the notes payables.

**(c) Receipts in advance from customers**

The amounts represent the advance payments from customers for goods, which revenue will be recognised when the performance obligation was satisfied through the goods were transferred to the customers.

	<b>2018</b>
	<b>RMB'000</b>
Revenue recognised during the year that was included in the contract liabilities at the beginning of the year	<b>(7,984,472)</b>

The Group's contracts with customers are for period of one year or less. The entire contract liabilities balance at the period end would be recognised into revenue in the next period. As permitted under HKFRS 15, the transaction price allocated to these unsatisfied contracts which have an original expected duration of one year or less is not disclosed.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**24. TRADE AND OTHER PAYABLES (Continued)****(d) Amounts due to related companies/ultimate holding company**

The amounts due are unsecured, interest-free and repayable on demand.

All of the trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

**25. BANK BORROWINGS**

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Bank loans, unsecured	<b>1,375,280</b>	1,296,460

As at 31 December 2018 and 2017, the Group's bank borrowings were carried at amortised cost, repayable in October 2019 and interest-bearing at the London Interbank Offered Rates plus 1.05% per annum. Pursuant to the facility agreement, it will be an event of default if Mr. Li Shu Fu is (i) no longer the single largest beneficial shareholder of the Company, or (ii) no longer beneficially owns at least 25% of the issued share capital of the Company. In case of an event of default, the bank may by notice to the Company (a) cancel the loan facility, (b) declare that all or part of the loan, together with accrued interest, be immediately due and payable, and/or (c) declare that all or part of the loans be payable on demand.

As at 31 December 2018 and 2017, none of the covenants relating to drawn down facilities had been breached.

Further details of the Group's management of liquidity risk were set out in note 35.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**26. DEFERRED TAX ASSETS AND LIABILITIES**

The following is the deferred tax (assets)/liabilities recognised in the consolidated statement of financial position and the movements thereon during the year:

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
At 1 January	<b>(133,354)</b>	9,965
Impact on initial application of HKFRS 9 (note 3.1(a)(ii))	<b>(3,483)</b>	–
Acquisition through business combinations (note 33)	<b>(13,538)</b>	(16,013)
Credit to the consolidated income statement (note 10)	<b>(214,545)</b>	(127,306)
At 31 December	<b>(364,920)</b>	(133,354)

**Deferred tax assets**

	<b>Unused tax losses</b>	<b>Intangible assets</b>	<b>Others</b>	<b>Total</b>
	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>	<b>RMB'000</b>
At 1 January 2017	7,657	126,039	54,411	188,107
(Charge)/Credit to the consolidated income statement	(7,657)	43,027	161,835	197,205
Acquisition through business combinations	–	–	16,013	16,013
At 31 December 2017	–	169,066	232,259	401,325
Impact on initial application of HKFRS 9 (note 3.1(a)(ii))	–	–	3,483	3,483
At 1 January 2018	–	169,066	235,742	404,808
Credit/(Charge) to the consolidated income statement	101,308	136,149	(12,844)	224,613
Acquisition through business combinations (note 33)	13,538	–	–	13,538
<b>At 31 December 2018</b>	<b>114,846</b>	<b>305,215</b>	<b>222,898</b>	<b>642,959</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**26. DEFERRED TAX ASSETS AND LIABILITIES (Continued)****Deferred tax liabilities**

	<b>Withholding tax on undistributed profits from the PRC subsidiaries RMB'000</b>
At 1 January 2017	198,072
Charge to the consolidated income statement (note 10)	69,899
At 31 December 2017 and 1 January 2018	267,971
Charge to the consolidated income statement (note 10)	10,068
<b>At 31 December 2018</b>	<b>278,039</b>

The deferred tax assets have been offset against certain deferred tax liabilities in the consolidated statement of financial position as they are related to the same entity and related to tax levied by the same tax authority. The amounts recognised in the consolidated statement of financial position are as follows:

	<b>2018 RMB'000</b>	2017 RMB'000
Deferred tax assets recognised in the consolidated statement of financial position	<b>(642,959)</b>	(401,325)
Deferred tax liabilities recognised in the consolidated statement of financial position	<b>278,039</b>	267,971
Net deferred tax assets	<b>(364,920)</b>	(133,354)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**26. DEFERRED TAX ASSETS AND LIABILITIES (Continued)****Deferred tax liabilities (Continued)**

Withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred tax liabilities has been provided in the consolidated financial statements in respect of temporary differences attributable to the profits earned by the PRC subsidiaries based on the expected dividends payout ratio of these PRC subsidiaries. Deferred tax liabilities have not been recognised in respect of temporary differences relating to the post-2007 profits earned by the PRC subsidiaries amounting to approximately RMB12,219,028,000 (2017: RMB11,557,434,000).

As at the reporting date, the Group has unused tax losses of approximately RMB2,239,044,000 (2017: RMB2,163,395,000) available for offset against future profits. Of the total tax losses, approximately RMB497,505,000 (2017: RMB300,535,000) may be carried forward for five years from the year of incurring the loss, and the remaining unrecognised tax losses have no expiry dates. No deferred tax asset has been recognised in respect of those tax losses due to the unpredictability of future profit streams.

**27. SHARE CAPITAL**

	2018		2017	
	Number of shares	Nominal value RMB'000	Number of shares	Nominal value RMB'000
Authorised:				
Ordinary shares of HK\$0.02 each				
At 31 December	<b>12,000,000,000</b>	<b>246,720</b>	12,000,000,000	246,720
Issued and fully paid:				
Ordinary shares of HK\$0.02 each				
At 1 January	<b>8,970,514,540</b>	<b>164,286</b>	8,882,861,540	162,708
Shares issued under share option scheme (note)	<b>11,098,000</b>	<b>184</b>	87,653,000	1,578
At 31 December	<b>8,981,612,540</b>	<b>164,470</b>	8,970,514,540	164,286

Note:

During the year ended 31 December 2018, share options were exercised to subscribe for 11,098,000 ordinary shares (2017: 87,653,000 ordinary shares) of the Company at a consideration of approximately RMB35,610,000 (2017: RMB313,857,000) of which approximately RMB184,000 (2017: RMB1,578,000) was credited to share capital and approximately RMB35,426,000 (2017: RMB312,279,000) was credited to the share premium account. As a result of the exercise of share options, share option reserve of RMB15,669,000 (2017: RMB116,598,000) has been transferred to the share premium account in accordance with the accounting policy set out in note 4(n).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**28. RESERVES****(a) Share premium**

Share premium represents the excess of the net proceeds from issuance of the Company's shares over its par value.

**(b) Statutory reserve**

As stipulated by the relevant laws and regulations for foreign-invested enterprises in the PRC, the Company's subsidiaries incorporated in the PRC are required to maintain certain statutory reserves.

**(c) Capital reserve**

Capital reserve represents differences between the consideration paid/received and the fair value of net assets acquired/disposed of by the Group from/to Zhejiang Geely Holding Group Company Limited, the ultimate holding company of the Company in prior years.

**(d) Translation reserve**

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy set out in note 4(g).

**(e) Share option reserve**

Share option reserve represents the fair value of share options granted to employees recognised and is dealt with in accordance with the accounting policy set out in note 4(n).

**(f) Accumulated profits**

Accumulated profits represent accumulated net profit or losses less dividends paid plus other transfers to or from other reserves.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**29. COMMITMENTS****(a) Capital expenditure commitments**

As at the reporting date, the capital commitments not provided for in the consolidated financial statements were as follows:

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Contracted but not provided for, net of deposits paid		
– purchase of property, plant and equipment	<b>4,070,570</b>	4,483,013
– investment in a joint venture (note 19)	<b>225,546</b>	–
– investment in an associate (note)	<b>490,000</b>	–
	<b>4,786,116</b>	4,483,013

Note: On 20 December 2018, Zhejiang Jirun Automobile Company Limited# 浙江吉潤汽車有限公司 (“Jirun Automobile”), an indirect 99% owned subsidiary of the Company, entered into an investment agreement (the “Investment Agreement”) with Contemporary Amperex Technology Company Limited# 寧德時代新能源科技股份有限公司 (“CATL Battery”), an independent third party, pursuant to which the parties agreed to establish an associate company (the “Associate Company”) to principally engage in the research and development, manufacture and sale of battery cells, battery modules and battery packs. Pursuant to the terms of the Investment Agreement, the Associate Company will be owned as to 49% by Jirun Automobile and as to 51% by CATL Battery. The registered capital of the Associate Company will be RMB1,000,000,000, and will be contributed as to 49% (equivalent to RMB490,000,000) in cash by Jirun Automobile and as to 51% (equivalent to RMB510,000,000) in cash by CATL Battery. As at 31 December 2018, the formation of the Associate Company was not yet completed. Please refer to the Company’s announcement dated 20 December 2018 for further details.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**29. COMMITMENTS (Continued)****(b) Operating lease commitments – as lessee**

As at the reporting date, the total future minimum lease payments in respect of office and factory premises under non-cancellable operating leases are payable as follows:

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Office and factory premises		
– Within one year	<b>26,561</b>	7,174
– In the second to fifth years inclusive	<b>50,073</b>	20,435
– After five years	–	110
	<b>76,634</b>	27,719

Leases are negotiated and rental are fixed for an initial period of two to ten years (2017: two to ten years) with an option to renew the leases when all terms are renegotiated.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**29. COMMITMENTS (Continued)****(c) Operating lease commitments – as lessor**

As at the reporting date, the total future minimum lease receipts in respect of leasehold land and buildings and plant and machinery under non-cancellable operating leases are receivable as follows:

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Leasehold land and buildings		
– Within one year	<b>7,021</b>	7,021
– After one year but within five years	<b>21,026</b>	23,849
– After five years	<b>13,642</b>	17,840
	<b>41,689</b>	48,710
Plant and machinery		
– Within one year	<b>4,001</b>	4,001
– After one year but within five years	<b>16,004</b>	16,004
– After five years	<b>13,003</b>	17,004
	<b>33,008</b>	37,009
	<b>74,697</b>	85,719

Leases are negotiated and rental are fixed for an initial period of five to fourteen years (2017: five to fourteen years).

# The English translation of the names of the companies established in the PRC is for reference only. The official names of these companies are in Chinese.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 30. RETIREMENT BENEFITS SCHEME

The Group participates in MPF Scheme established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the scheme are held separately from those of the Group in funds under the control of trustees.

For members of the Mandatory Provident Fund Scheme (“the Scheme”), the Group contributes 5% of the employees’ relevant income to the Scheme. Both the employer’s and the employees’ contributions are subject to a maximum of monthly relevant income of HK\$30,000 (equivalent to RMB25,000) per employee. Contributions to the plan vest immediately.

The employees of the Company’s subsidiaries in the PRC are members of a state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries are required to contribute a fixed percentage of the employees’ basic salary to the retirement benefit scheme to fund the benefit. The only obligation of the Group in respect of the retirement benefit scheme is to make the specified contributions.

Contributions are made by the Company’s subsidiaries in other overseas countries to defined contribution superannuation funds in accordance with the relevant laws and regulations in those countries.

During the year, the aggregate employer’s contributions made by the Group amounted to RMB378,262,000 (2017: RMB269,085,000).

### 31. EQUITY SETTLED SHARE-BASED PAYMENTS TRANSACTIONS

Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 31 May 2002, a share option scheme was adopted by the Company and is valid and effective for a period of ten years from 31 May 2002 (the “Old Share Option Scheme”). Pursuant to an ordinary resolution passed at the annual general meeting of the Company held on 18 May 2012, a new share option scheme (the “New Share Option Scheme”) was adopted to replace the Old Share Option Scheme with the same terms. The Old Share Option Scheme and the New Share Option Scheme are collectively referred to as the “Scheme”. After adoption of the New Share Option Scheme, the Old Share Option Scheme was terminated.

The Scheme was adopted for the purpose of providing eligible participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole. All directors, full-time employees and any other persons who, in the sole discretion of the Board of Directors, have contributed or will contribute to the Group are eligible to participate in the Scheme.

The maximum number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 31. EQUITY SETTLED SHARE-BASED PAYMENTS TRANSACTIONS (Continued)

Shares which may be issued upon exercise of all options to be granted under the Scheme or any other share option schemes adopted by the Company must not in aggregate exceed 10% of the shares of the Company in issue on the date of adoption.

Unless approved by the shareholders of the Company, the total number of shares of the Company issued and to be issued upon the exercise of the options granted to each participant (including both exercised and unexercised options) under the Scheme or any other share option schemes adopted by the Company in any twelve-month period must not exceed 1% of the issued share capital of the Company.

The period within which the options must be exercised will be specified by the Company at the time of grant. This period must expire no later than ten years from the date of grant of the options. At the time of grant of the options, the Company may specify a minimum period for which an option must be held before it can be exercised. The offer of a grant of share options may be accepted within five business days from the date of offer, the offer is delivered to that participant and the amount payable on acceptance of each share option is HK\$1.

For those share options granted after 1 January 2010 and prior to 1 January 2015, one-tenth of share options granted will vest in every year from the grant date with one-tenth of options being vested immediately at the date of grant. For those share options granted after 1 January 2015, none of the share options will be vested in the first year, one-fourth of share options granted will vest in every year after the first year of the grant date.

The subscription price for the shares under the Scheme is a price determined by the directors, but not less than the highest of (i) the closing price of shares as stated on the SEHK on the date of the offer of grant; (ii) the average closing price of the shares as stated on the SEHK's daily quotations sheet for the five trading days immediately preceding the date of the offer of grant; and (iii) the nominal value of the shares.

No options may be granted under the Scheme after the date of the tenth anniversary of its adoption.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**31. EQUITY SETTLED SHARE-BASED PAYMENTS TRANSACTIONS (Continued)**

The following table discloses details of the Company's share options under the Scheme held by directors, eligible employees and other persons:

**2018**

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December
<b>Directors</b>							
Mr. Ang Siu Lun, Lawrence	18 January 2010 to 17 January 2020	4.07	11,000,000	-	-	-	11,000,000
	9 January 2016 to 8 January 2020	2.79	5,000,000	-	-	-	5,000,000
Mr. An Cong Hui	18 January 2010 to 17 January 2020	4.07	4,700,000	-	-	-	4,700,000
Mr. An Qing Heng	9 January 2016 to 8 January 2020	2.79	750,000	-	(120,000)	-	630,000
Mr. Gui Sheng Yue	18 January 2010 to 17 January 2020	4.07	11,500,000	-	-	-	11,500,000
	9 January 2016 to 8 January 2020	2.79	6,000,000	-	-	-	6,000,000
Mr. Li Dong Hui, Daniel	23 March 2012 to 22 March 2022	4.07	3,500,000	-	-	-	3,500,000
Ms. Wei Mei	18 January 2010 to 17 January 2020	4.07	900,000	-	-	-	900,000
	23 March 2012 to 22 March 2022	4.07	5,000,000	-	-	-	5,000,000
Mr. Yang Jian	18 January 2010 to 17 January 2020	4.07	9,000,000	-	-	-	9,000,000
Mr. Lee Cheuk Yin, Dannis	18 January 2010 to 17 January 2020	4.07	200,000	-	(100,000)	-	100,000
	9 January 2016 to 8 January 2020	2.79	500,000	-	(250,000)	-	250,000
Mr. Yeung Sau Hung, Alex	18 January 2010 to 17 January 2020	4.07	200,000	-	(100,000)	-	100,000
	9 January 2016 to 8 January 2020	2.79	500,000	-	(250,000)	-	250,000
Mr. Carl Peter Edmund Moriz Forster	9 January 2016 to 8 January 2020	2.79	1,000,000	-	-	-	1,000,000
Mr. Wang Yang	9 January 2016 to 8 January 2020	2.79	1,000,000	-	-	-	1,000,000
			60,750,000	-	(820,000)	-	59,930,000

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**31. EQUITY SETTLED SHARE-BASED PAYMENTS TRANSACTIONS (Continued)**

The following table discloses details of the Company's share options under the Scheme held by directors, eligible employees and other persons (Continued):

**2018 (Continued)**

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December
<b>Employees</b>	18 January 2010 to 17 January 2020	4.07	159,477,000	-	(8,928,000)	(415,000)	150,134,000
	21 April 2010 to 20 April 2020	4.07	4,710,000	-	-	(500,000)	4,210,000
	23 March 2012 to 22 March 2022	4.07	6,450,000	-	(200,000)	(400,000)	5,850,000
	9 January 2016 to 8 January 2020	2.79	8,820,000	-	(1,150,000)	-	7,670,000
	2 June 2016 to 1 June 2020	4.08	800,000	-	-	-	800,000
	7 September 2019 to 6 September 2023	15.96	-	600,000	-	-	600,000
			180,257,000	600,000	(10,278,000)	(1,315,000)	169,264,000
<b>Other eligible participants</b>	2 June 2016 to 1 June 2020	4.08	11,450,000	-	-	-	11,450,000
	31 March 2018 to 30 March 2022	12.22	5,500,000	-	-	-	5,500,000
			16,950,000	-	-	-	16,950,000
			257,957,000	600,000	(11,098,000)	(1,315,000)	246,144,000
			Outstanding at 1 January HK\$	Granted during the year HK\$	Exercised during the year HK\$	Forfeited during the year HK\$	Outstanding at 31 December HK\$
	Weighted average exercise price per share		4.13	15.96	3.87	4.07	4.17
	Weighted average remaining contractual life of options outstanding as at 31 December 2018						1.25 years
	Number of options exercisable as at 31 December 2018						206,574,600
	Weighted average exercise price per share of options exercisable as at 31 December 2018						HK\$4.02



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**31. EQUITY SETTLED SHARE-BASED PAYMENTS TRANSACTIONS (Continued)**

The following table discloses details of the Company's share options under the Scheme held by directors, eligible employees and other persons (Continued):

**2017**

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December
<b>Directors</b>							
Mr. Ang Siu Lun, Lawrence	18 January 2010 to 17 January 2020	4.07	11,000,000	-	-	-	11,000,000
	9 January 2016 to 8 January 2020	2.79	5,000,000	-	-	-	5,000,000
Mr. An Cong Hui	18 January 2010 to 17 January 2020	4.07	4,700,000	-	-	-	4,700,000
Mr. An Qing Heng	9 January 2016 to 8 January 2020	2.79	1,000,000	-	(250,000)	-	750,000
Mr. Gui Sheng Yue	18 January 2010 to 17 January 2020	4.07	11,500,000	-	-	-	11,500,000
	9 January 2016 to 8 January 2020	2.79	6,000,000	-	-	-	6,000,000
Mr. Li Dong Hui, Daniel	23 March 2012 to 22 March 2022	4.07	3,500,000	-	-	-	3,500,000
Ms. Wei Mei	18 January 2010 to 17 January 2020	4.07	900,000	-	-	-	900,000
	23 March 2012 to 22 March 2022	4.07	5,000,000	-	-	-	5,000,000
Mr. Yang Jian	18 January 2010 to 17 January 2020	4.07	9,000,000	-	-	-	9,000,000
Mr. Lee Cheuk Yin, Dannis	18 January 2010 to 17 January 2020	4.07	300,000	-	(100,000)	-	200,000
	9 January 2016 to 8 January 2020	2.79	750,000	-	(250,000)	-	500,000
Mr. Yeung Sau Hung, Alex	18 January 2010 to 17 January 2020	4.07	300,000	-	(100,000)	-	200,000
	9 January 2016 to 8 January 2020	2.79	750,000	-	(250,000)	-	500,000
Mr. Carl Peter Edmund Moriz Forster	9 January 2016 to 8 January 2020	2.79	1,000,000	-	-	-	1,000,000
Mr. Wang Yang	9 January 2016 to 8 January 2020	2.79	1,000,000	-	-	-	1,000,000
			61,700,000	-	(950,000)	-	60,750,000

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**31. EQUITY SETTLED SHARE-BASED PAYMENTS TRANSACTIONS (Continued)**

The following table discloses details of the Company's share options under the Scheme held by directors, eligible employees and other persons (Continued):

**2017 (Continued)**

	Exercisable period	Exercise price per share HK\$	Outstanding at 1 January	Granted during the year	Exercised during the year	Forfeited during the year	Outstanding at 31 December
<b>Employees</b>	18 January 2010 to 17 January 2020	4.07	224,505,000	–	(64,203,000)	(825,000)	159,477,000
	21 April 2010 to 20 April 2020	4.07	11,780,000	–	(7,070,000)	–	4,710,000
	23 March 2012 to 22 March 2022	4.07	7,250,000	–	(800,000)	–	6,450,000
	9 January 2016 to 8 January 2020	2.79	14,400,000	–	(5,580,000)	–	8,820,000
	2 June 2016 to 1 June 2020	4.08	1,000,000	–	(200,000)	–	800,000
			258,935,000	–	(77,853,000)	(825,000)	180,257,000
<b>Other eligible participants</b>	2 June 2016 to 1 June 2020	4.08	20,300,000	–	(8,850,000)	–	11,450,000
	31 March 2018 to 30 March 2022	12.22	–	5,500,000	–	–	5,500,000
			20,300,000	5,500,000	(8,850,000)	–	16,950,000
			340,935,000	5,500,000	(87,653,000)	(825,000)	257,957,000
			Outstanding at 1 January HK\$	Granted during the year HK\$	Exercised during the year HK\$	Forfeited during the year HK\$	Outstanding at 31 December HK\$
	Weighted average exercise price per share		3.96	12.22	3.98	4.07	4.13
	Weighted average remaining contractual life of options outstanding as at 31 December 2017						2.24 years
	Number of options exercisable as at 31 December 2017						179,274,600
	Weighted average exercise price per share of options exercisable as at 31 December 2017						HK\$4.03

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**31. EQUITY SETTLED SHARE-BASED PAYMENTS TRANSACTIONS (Continued)**

During the year ended 31 December 2018, 600,000 options were granted on 7 September 2018 with estimated fair values of approximately RMB2,286,000. The closing price of the Company's shares on the date on which the options were granted was HK\$15.20. The exercise price of the share options granted is HK\$15.96 per share.

During the year ended 31 December 2017, 5,500,000 options were granted on 31 March 2017 with estimated fair values of approximately RMB20,210,000. The closing price of the Company's shares on the date on which the options were granted was HK\$11.90. The exercise price of the share options granted is HK\$12.22 per share.

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair values were measured based on Binomial Option Pricing Model. The inputs into the model are as follows:

<b>Grant date</b>	<b>7 September 2018</b>	<b>31 March 2017</b>
Share price	<b>HK\$15.20</b>	HK\$11.90
Exercise price	<b>HK\$15.96</b>	HK\$12.22
Expected volatility	<b>43.99%</b>	44.17%
Expected life (expressed as weighted average life used in the modelling under Binomial Option Pricing Model)	<b>5 years</b>	5 years
Risk-free interest rate	<b>2.19%</b>	1.37%
Expected dividend yield	<b>1.17%</b>	0.95%

Expected volatility was determined by using historical volatility of the Company's share price, adjusted for any expected changes to future volatility based on publicly available information. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioural considerations. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate. The Group recognised a total expense of RMB14,594,000 (2017: RMB27,724,000) for the year ended 31 December 2018 in relation to share options granted by the Company and the share-based payments were shown as a separate line item on the consolidated income statement. Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There was no market conditions associated with the share options granted.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**32. MATERIAL CONNECTED AND RELATED PARTY TRANSACTIONS**

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following material transactions with connected and related parties:

**(a) Transactions**

Name of related parties	Nature of transactions	2018 RMB'000	2017 RMB'000
<b>Related companies (notes a and b)</b>			
Zhejiang Geely Automobile Company Limited* 浙江吉利汽車有限公司	Sales of complete knock down kits and vehicle tool kits (note e)	<b>26,619,927</b>	28,966,961
	Sales of automobile parts and components (note e)	<b>1,094</b>	3,720
	Sales of powertrain and related components (note e)	<b>212</b>	–
	Sales of complete buildup units, complete knock down kits and related after-sales parts (Proton Sales Agreement) (note e)	<b>253,892</b>	–
	Claims income on defective materials purchased	<b>230,108</b>	184,019
	Purchase of complete buildup units (note e)	<b>27,101,271</b>	29,719,819
	Purchase of automobile parts and components (note e)	<b>678</b>	4,438
	Sub-contracting fee paid (note e)	<b>18,571</b>	18,711
	Acquisition of subsidiaries (note e)	<b>–</b>	597,550
	Acquisition of a subsidiary (note e) (notes 33(a))	<b>1,169,399</b>	–
	Claims paid on defective materials sold	<b>217,071</b>	197,170
Shanghai Maple Automobile Company Limited* 上海華普汽車有限公司	Sales of complete knock down kits and vehicle tool kits (note e)	<b>–</b>	43
	Sales of automobile parts and components (note e)	<b>75</b>	2,365
	Sales of powertrain and related components (note e)	<b>306</b>	–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**32. MATERIAL CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)**

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following material transactions with connected and related parties (Continued):

**(a) Transactions (Continued)**

Name of related parties	Nature of transactions	2018 RMB'000	2017 RMB'000
<b>Related companies (notes a and b)</b>			
Zhejiang Haoqing Automobile Manufacturing Company Limited#	Sales of complete knock down kits and vehicle tool kits (note e)	<b>63,422,157</b>	57,052,068
浙江豪情汽車製造有限公司	Sales of complete knock down kits (electric vehicles) (note e)	<b>175,319</b>	826,298
	Claims income on defective materials purchased	<b>249,713</b>	192,985
	Purchase of complete buildup units (note e)	<b>63,063,671</b>	59,314,043
	Purchase of automobile parts and components (note e)	<b>1</b>	821
	Disposal of a subsidiary (note e)	<b>–</b>	1,241,687
	Claims paid on defective materials sold	<b>266,859</b>	198,850
Zhejiang Geely Automobile Parts and Components Company Limited#	Sales of automobile parts and components (note e)	<b>–</b>	3
浙江吉利汽車零部件採購有限公司	Claims income on defective materials purchased	<b>71,624</b>	56,276
	Purchase of automobile parts and components (note e)	<b>16,723,802</b>	16,575,792
	Claim paid on defective materials sold	<b>–</b>	24
Taizhou Haoqing Automobile Sales Services Company Limited#	Sales of complete buildup units	<b>–</b>	580,737
台州豪情汽車銷售服務有限公司	Sales of automobiles parts and components (note e)	<b>–</b>	7,057

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**32. MATERIAL CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)**

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following material transactions with connected and related parties (Continued):

**(a) Transactions (Continued)**

Name of related parties	Nature of transactions	2018 RMB'000	2017 RMB'000
<b>Related companies (notes a and b)</b>			
Shanghai LTI Automobile Company Limited <sup>#</sup> 上海英倫帝華汽車有限公司	Sales of automobile parts and components (note e) Purchase of automobile parts and components (note e)	<b>843</b> <b>19,783</b>	33 12,893
Ningbo Geely Automobile Research Development Co., Ltd. <sup>#</sup> 寧波吉利汽車研究開發有限公司	Sales of complete knock down kits and vehicle tool kits (note e) Sales of automobile parts and components (note e) Sales of powertrain and related components (note e) Purchase of automobile parts and components (note e)	<b>4,112</b> — <b>25,984</b> <b>14,664</b>	1,702 16 — 214
Hangzhou Geely New Energy Automobile Sales Company Limited <sup>#</sup> 杭州吉利新能源汽車銷售有限公司	Sales of complete buildup units (electric vehicles) (note e) Sales of automobile parts and components (note e) Purchase of complete buildup units (note e)	<b>4,445,741</b> <b>4</b> <b>817</b>	2,733,212 — —
Xiamen Geely Automobile Sales Company Limited <sup>#</sup> 廈門吉利汽車銷售有限公司	Sales of complete buildup units (electric vehicles) (note e)	<b>8,804</b>	—
Yiwu Geely Engine Company Limited <sup>#</sup> 義烏吉利發動機有限公司	Sales of powertrain and related components (note e) Sales of automobile parts and components (note e) Purchase of automobile parts and components (note e)	<b>22,054</b> <b>101</b> <b>50</b>	— — —

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**32. MATERIAL CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)**

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following material transactions with connected and related parties (Continued):

**(a) Transactions (Continued)**

Name of related parties	Nature of transactions	2018 RMB'000	2017 RMB'000
<b>Related companies (notes a and b)</b>			
Shenzhen Geely Automobile Sales Company Limited# 深圳吉利汽車銷售有限公司	Sales of complete buildup units (electric vehicles) (note e)	<b>529,904</b>	23,993
Shanxi New Energy Automobile Industrial Company Limited# 山西新能源汽車工業有限公司	Sales of automobile parts and components (note e) Sales of complete knock down kits and vehicle tool kits (note e)	<b>291</b> <b>1,495</b>	1,291 –
Hangzhou Geely Yiyun Technology Company Limited# 杭州吉利易雲科技有限公司	IT services expenses (note e)	<b>69,234</b>	29,374
Zhejiang Geely Business Services Company Limited# 浙江吉利商務服務有限公司	Business travel services expenses (note e)	<b>125,619</b>	92,114
Kandi Electric Vehicles (Shanghai) Co., Ltd.# 康迪電動汽車(上海)有限公司	Sales of automobile parts and components (note e) Sales of complete knock down kits (electric vehicles) (note e)	<b>85,053</b> –	37,945 127
Kandi Electric Vehicles Group Co., Ltd.# 康迪電動汽車集團有限公司	Sales of complete knock down kits (electric vehicles) (note e)	–	469
Viridi E-Mobility Technology (Suzhou) Co., Ltd.# 威睿電動汽車技術(蘇州)有限公司	Purchase of automobile parts and components (note e) Sales of automobile parts and components (note e)	<b>87,113</b> <b>386</b>	26,476 –

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**32. MATERIAL CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)**

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following material transactions with connected and related parties (Continued):

**(a) Transactions (Continued)**

Name of related parties	Nature of transactions	2018 RMB'000	2017 RMB'000
<b>Related companies (notes a and b)</b>			
Zhejiang Kingkong Automobile Company Limited <sup>#</sup>	Purchase of automobile parts and components (note e)	71	—
("Zhejiang Kingkong") (note c) 浙江金剛汽車有限公司	Sales of automobile parts and components (note e)	—	21,162
Yaou Automobile Manufacturing (Taizhou) Company Limited <sup>#</sup> 亞歐汽車製造(台州)有限公司	Sales of powertrain and related components (note e)	249,267	—
	Sales of automobile parts and components (note e)	50	—
	Purchase of automobile parts and components (note e)	120	—
Shanghai Meihuan Trade Company Limited <sup>#</sup> 上海美寰貿易有限公司	Sales of automobile parts and components (note e)	5,621	—
Guiyang Geely Engine Company Limited <sup>#</sup> 貴陽吉利發動機有限公司	Acquisition of a subsidiary (note e) (note 33(d))	484,003	—
	Sales of powertrain and related components (note e)	12,788	—
Taizhou Geely Luoyou Engine Company Limited <sup>#</sup> 台州吉利羅佑發動機有限公司	Acquisition of a subsidiary (note e) (note 33(e))	781,274	—
	Sales of powertrain and related components (note e)	3,352	—
Hangzhou Geely Automobile Components Company Limited <sup>#</sup> 杭州吉利汽車部件有限公司	Acquisition of a subsidiary (note e) (note 33(b))	930,620	—
Guizhou Geely New Energy Automobile Company Limited <sup>#</sup> 貴州吉利新能源汽車有限公司	Acquisition of a subsidiary (note e) (note 33(c))	1,074,309	—
	Sales of automobile parts and components (note e)	196	—
	Sales of powertrain and related components (note e)	733	—



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**32. MATERIAL CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)**

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following material transactions with connected and related parties (Continued):

**(a) Transactions (Continued)**

Name of related parties	Nature of transactions	2018 RMB'000	2017 RMB'000
<b>Related companies</b>			
<b>(notes a and b)</b>			
Guangzhou Geely New Energy Automobile Sales Company Limited <sup>#</sup> 廣州吉利新能源汽車銷售有限公司	Sales of complete buildup units (electric vehicles) (note e)	245,727	—
Fuzhou Geely Emgrand New Energy Automobile Sales Company Limited <sup>#</sup> 福州吉利帝豪新能源汽車銷售有限公司	Sales of complete buildup units (electric vehicles) (note e)	5,467	—
Xian Geely New Energy Automobile Sales Company Limited <sup>#</sup> 西安吉利新能源汽車銷售有限公司	Sales of complete buildup units (electric vehicles) (note e)	102,101	—
London EV Company Limited	Sales of powertrain and related components (note e)	25,920	—
<b>Associates</b>			
Mando (Ningbo) Automotive Parts Co., Limited <sup>#</sup> 萬都(寧波)汽車零部件有限公司	Purchase of automobile parts and components	3,074,562	3,346,577
BELGEE	Sales of automobile parts and components	205,659	—

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**32. MATERIAL CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)**

In addition to the transactions/information disclosed elsewhere in these consolidated financial statements, during the year, the Group had the following material transactions with connected and related parties (Continued):

**(a) Transactions (Continued)**

Name of related parties	Nature of transactions	2018 RMB'000	2017 RMB'000
<b>Joint ventures</b>			
LYNK & CO Investment Co., Ltd. <sup>#</sup> 領克投資有限公司	Disposal of a subsidiary (note e)	–	100,000
LYNK & CO Automobile Sales Company Limited <sup>#</sup> 領克汽車銷售有限公司	Sales of powertrain and related components (note e)	1,356	–
Kaiyue Auto Parts Manufacture (Zhangjiakou) Co., Ltd. <sup>#</sup> 凱悅汽車大部件製造(張家口)有限公司	Sales of powertrain and related components (note e)	906,175	–
<b>Ultimate holding company</b>			
Zhejiang Geely Holding Group Company Limited <sup>#</sup> ("Geely Holding") 浙江吉利控股集團有限公司	Acquisition of a subsidiary (note e)	–	993,100
	Acquisition of property, plant and equipment (notes e and f)	32,869	–

<sup>#</sup> The English translation of the names of the companies established in the PRC is for reference only. The official names of these companies are in Chinese.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**32. MATERIAL CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)****(a) Transactions (Continued)**

Notes:

- (a) The Group and the related companies are under the common control of the substantial shareholder of the Company's ultimate holding company.
- (b) The Group does not have the automobile catalogue issued by the National Development Reform Commission in the PRC which is required to facilitate payment of the PRC consumption tax. The related parties referred to above have the relevant automobile catalogue license and therefore the sales of complete knock down kits and vehicle tool kits to and purchase of complete buildup units from related parties as set out above have been presented on a net basis in the consolidated income statement (to the extent that they are back-to-back transactions) since the said related parties in effect only act as a channel to facilitate the payment of the PRC consumption tax. For the same reason, the related claims income from and claims expenses paid to these related parties have also been presented on a net basis as long as they are back-to-back transactions.
- (c) Zhejiang Kingkong had been disposed of by the Group to Zhejiang Haoqing in September 2017. The transactions represented sales after the disposal.
- (d) The related party transactions were conducted in the Group's normal course of business and at prices and terms no less than those charged to and contracted with other third parties of the Group.
- (e) The related party transactions constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are disclosed in "Directors' Report" section to the annual report.
- (f) Pursuant to the acquisition agreement dated 5 October 2018, the Company entered into a transaction with Geely Holding, pursuant to which the Group agreed to acquire and the Geely Holding Group agreed to sell the assets comprising predominantly imported equipment for use in the Group's production and research and development, as well as a small amount of office equipment and software system for a maximum consideration of approximately RMB679,871,000.

**(b) Remuneration of key management personnel**

The remuneration of directors (as disclosed in note 13) and other members of key management personnel during the year are as follows:

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Short-term benefits	<b>17,131</b>	17,186
Retirement scheme contribution	<b>233</b>	232
Equity settled share-based payments	<b>14,594</b>	27,724
	<b>31,958</b>	45,142

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**32. MATERIAL CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)****(b) Remuneration of key management personnel (Continued)**

The remuneration of directors and key management personnel are determined by the remuneration committee having regard to the performance of individuals and market trends. Total remuneration is included on “staff costs” (see note 9(b)).

**(c) Financial guarantee contracts**

As at 31 December 2018, the Group did not provide any guarantee with respect to banking facilities granted to the Company’s ultimate holding company.

As at 31 December 2017, the Group had provided guarantees with respect to banking facilities granted to the Company’s ultimate holding company of RMB838,500,000. Without taking into account any collateral held, this represented the Group’s maximum exposure under the financial guarantee contracts at the reporting date. As at 31 December 2017, the Group’s maximum exposure under the financial guarantee contracts was determined to be RMB838,500,000. As at the reporting date, the Company’s ultimate holding company will provide 100% counter guarantees to the Group by way of cash in respect of the above guarantees provided by the Group to the respective banks.

The Group would only be liable to pay the banks if the banks are unable to recover the loans. No provision for the Group’s obligation under the financial guarantee contracts have been made as it was not probable that the repayment of the bank borrowings by the Company’s ultimate holding company would be in default. According to the terms of the bank loans, the earliest repayment dates of the bank loans of RMB291,000,000, RMB355,500,000, RMB189,000,000 and RMB3,000,000 are in 2018, 2019, 2020 and 2021, respectively. The financial guarantee was measured at fair value in initial recognition. The fair value of the guarantee was insignificant.

Other than the material related party transactions disclosed above, no other transaction, arrangement or contract of significance to which the Company was a party and in which a director of the Company or a connected entity of the director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**33. BUSINESS COMBINATIONS****(a) Ningbo Jirun Automobile Components Company Limited# 寧波吉潤汽車部件有限公司 (“Ningbo Jirun”)**

On 18 July 2018, Zhejiang Jirun Automobile Company Limited# 浙江吉潤汽車有限公司 (“Jirun Automobile”), an indirect 99% owned subsidiary of the Company, and a fellow subsidiary owned by the Company's ultimate holding company entered into an acquisition agreement pursuant to which Jirun Automobile has conditionally agreed to acquire, and the fellow subsidiary has conditionally agreed to sell the entire equity interests of Ningbo Jirun for a cash consideration of approximately RMB1,169,399,000. Ningbo Jirun is engaged in the research and development, manufacturing, promotion and sales of vehicles and related automobile components and provision of related after-sales and technical services in the PRC. The acquisition of Ningbo Jirun was completed on 28 September 2018. Please refer to the Company's circular dated 16 August 2018 for further details.

The assets acquired and liabilities recognised at the acquisition date are as follows:

	<b>Pre-acquisition carrying amounts RMB'000</b>	<b>Fair value adjustments RMB'000</b>	<b>Recognised values on acquisition RMB'000</b>
The net assets acquired:			
Property, plant and equipment (note 14)	2,555,650	–	2,555,650
Intangible assets (note 15)	113,409	–	113,409
Land lease prepayments (note 16)	177,727	41,100	218,827
Trade and other receivables	371,571	–	371,571
Inventories	105,485	–	105,485
Bank balances and cash	24,740	–	24,740
Trade and other payables	(2,221,404)	–	(2,221,404)
	1,127,178	41,100	1,168,278
Goodwill arising on acquisition (note 17):			
Cash consideration transferred			1,169,399
Fair value of identifiable net assets acquired			(1,168,278)
			1,121
Net cash outflow arising on acquisition of a subsidiary:			
Cash consideration paid			(1,169,399)
Bank balances and cash acquired			24,740
			(1,144,659)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 33. BUSINESS COMBINATIONS (Continued)

(a) **Ningbo Jirun Automobile Components Company Limited# 寧波吉潤汽車部件有限公司 (“Ningbo Jirun”)**  
(Continued)

No acquisition-related costs had been incurred in relation to the acquisition.

As a result of the acquisition, the Group is expected to increase its manufacturing capacity to meet the increasing demand of automobiles in the PRC, as well as enhancing its production capabilities. Goodwill arose because the consideration paid included amounts in relation to the revenue growth and future market development of the businesses acquired. These benefits are not recognised separately from goodwill, because they do not meet the recognition criteria for identifiable intangible assets. Goodwill arising from the acquisition is not expected to be deductible for tax purpose.

Ningbo Jirun has contributed revenue of RMBNil and loss of RMB53,176,000, respectively from the acquisition date to 31 December 2018.

If the acquisition had occurred on 1 January 2018, the consolidated revenue and consolidated profit of the Group for the year ended 31 December 2018 would be RMB106,595,133,000 and RMB12,642,667,000, respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition had been occurred on 1 January 2018 and could not serve as a basis for the forecast of future operation results.

(b) **Hangzhou Geely Automobile Company Limited# 杭州吉利汽車有限公司 (“Hangzhou Automobile”)**

On 18 July 2018, Jirun Automobile and a fellow subsidiary owned by the Company's ultimate holding company entered into an acquisition agreement pursuant to which Jirun Automobile has conditionally agreed to acquire, and the fellow subsidiary has conditionally agreed to sell the entire equity interests of Hangzhou Automobile for a cash consideration of approximately RMB930,620,000. Hangzhou Automobile is engaged in the research and development, manufacturing, promotion and sales of vehicles and related automobile components and provision of related after-sales and technical services in the PRC. The acquisition of Hangzhou Automobile was completed on 5 September 2018. Please refer to the Company's circular dated 16 August 2018 for further details.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**33. BUSINESS COMBINATIONS (Continued)****(b) Hangzhou Geely Automobile Company Limited# 杭州吉利汽車有限公司 (“Hangzhou Automobile”)  
(Continued)**

The assets acquired and liabilities recognised at the acquisition date are as follows:

	<b>Pre-acquisition carrying amounts RMB'000</b>	<b>Fair value adjustments RMB'000</b>	<b>Recognised values on acquisition RMB'000</b>
The net assets acquired:			
Property, plant and equipment (note 14)	1,139,387	—	1,139,387
Intangible assets (note 15)	18,376	—	18,376
Land lease prepayments (note 16)	327,562	44,500	372,062
Trade and other receivables	207,648	—	207,648
Inventories	440	—	440
Bank balances and cash	19,380	—	19,380
Trade and other payables	(827,536)	—	(827,536)
	885,257	44,500	929,757
Goodwill arising on acquisition (note 17):			
Cash consideration transferred			930,620
Fair value of identifiable net assets acquired			(929,757)
			863
Net cash outflow arising on acquisition of a subsidiary:			
Cash consideration paid			(930,620)
Bank balances and cash acquired			19,380
			(911,240)

No acquisition-related costs had been incurred in relation to the acquisition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**33. BUSINESS COMBINATIONS (Continued)****(b) Hangzhou Geely Automobile Company Limited# 杭州吉利汽車有限公司 (“Hangzhou Automobile”)  
(Continued)**

As a result of the acquisition, the Group is expected to increase its manufacturing capacity to meet the increasing demand of automobiles in the PRC, as well as enhancing its production capabilities. Goodwill arose because the consideration paid included amounts in relation to the revenue growth and future market development of the businesses acquired. These benefits are not recognised separately from goodwill, because they do not meet the recognition criteria for identifiable intangible assets. Goodwill arising from the acquisition is not expected to be deductible for tax purpose.

Hangzhou Automobile has contributed revenue of RMBNil and loss of RMB29,277,000, respectively from the acquisition date to 31 December 2018.

If the acquisition had occurred on 1 January 2018, the consolidated revenue and consolidated profit of the Group for the year ended 31 December 2018 would be RMB106,595,133,000 and RMB12,662,961,000, respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition had been occurred on 1 January 2018 and could not serve as a basis for the forecast of future operation results.

**(c) Guizhou Geely Automobile Components Company Limited# 貴州吉利汽車部件有限公司 (“Guizhou Automobile”)**

On 18 July 2018, Jirun Automobile and a fellow subsidiary owned by the Company's ultimate holding company entered into an acquisition agreement pursuant to which Jirun Automobile has conditionally agreed to acquire, and the fellow subsidiary has conditionally agreed to sell the entire equity interests of Guizhou Automobile for a cash consideration of approximately RMB1,074,309,000. Guizhou Automobile is engaged in the research and development, manufacturing, promotion and sales of vehicles and related automobile components and provision of related after-sales and technical services in the PRC. The acquisition of Guizhou Automobile was completed on 5 September 2018. Please refer to the Company's circular dated 16 August 2018 for further details.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**33. BUSINESS COMBINATIONS (Continued)****(c) Guizhou Geely Automobile Components Company Limited# 貴州吉利汽車部件有限公司 (“Guizhou Automobile”) (Continued)**

The assets acquired and liabilities recognised at the acquisition date are as follows:

	<b>Pre-acquisition carrying amounts RMB'000</b>	<b>Fair value adjustments RMB'000</b>	<b>Recognised values on acquisition RMB'000</b>
The net assets acquired:			
Property, plant and equipment (note 14)	1,682,667	—	1,682,667
Intangible assets (note 15)	299,095	—	299,095
Land lease prepayments (note 16)	264,148	28,000	292,148
Trade and other receivables	283,863	—	283,863
Inventories	29,506	—	29,506
Bank balances and cash	10,651	—	10,651
Trade and other payables	(1,527,437)	—	(1,527,437)
	1,042,493	28,000	1,070,493
Goodwill arising on acquisition (note 17):			
Cash consideration transferred			1,074,309
Fair value of identifiable net assets acquired			(1,070,493)
			3,816
Net cash outflow arising on acquisition of a subsidiary:			
Cash consideration paid			(1,074,309)
Bank balances and cash acquired			10,651
			(1,063,658)

No acquisition-related costs had been incurred in relation to the acquisition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**33. BUSINESS COMBINATIONS (Continued)****(c) Guizhou Geely Automobile Components Company Limited# 貴州吉利汽車部件有限公司 (“Guizhou Automobile”) (Continued)**

As a result of the acquisition, the Group is expected to increase its manufacturing capacity to meet the increasing demand of automobiles in the PRC, as well as enhancing its production capabilities. Goodwill arose because the consideration paid included amounts in relation to the revenue growth and future market development of the businesses acquired. These benefits are not recognised separately from goodwill, because they do not meet the recognition criteria for identifiable intangible assets. Goodwill arising from the acquisition is not expected to be deductible for tax purpose.

Guizhou Automobile has contributed revenue of RMBNil and loss of RMB35,194,000, respectively from the acquisition date to 31 December 2018.

If the acquisition had occurred on 1 January 2018, the consolidated revenue and consolidated profit of the Group for the year ended 31 December 2018 would be RMB106,595,133,000 and RMB12,669,490,000, respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition had been occurred on 1 January 2018 and could not serve as a basis for the forecast of future operation results.

**(d) Guizhou Geely Engine Company Limited# 貴州吉利發動機有限公司 (“Guizhou Engine”)**

On 5 October 2018, Zhejiang Geely Powertrain Company Limited# 浙江吉利動力總成有限公司 (“Zhejiang Powertrain”), an indirect 99% owned subsidiary of the Company, and a fellow subsidiary owned by the Company's ultimate holding company entered into an acquisition agreement pursuant to which Zhejiang Powertrain has conditionally agreed to acquire, and the fellow subsidiary has conditionally agreed to sell the entire equity interests of Guizhou Engine for a cash consideration of approximately RMB484,003,000. Guizhou Engine is engaged in the preparation and construction of engine manufactory project in the PRC. The acquisition of Guizhou Engine was completed on 10 December 2018. Please refer to the Company's circular dated 20 November 2018 for further details.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**33. BUSINESS COMBINATIONS (Continued)****(d) Guizhou Geely Engine Company Limited# 貴州吉利發動機有限公司 (“Guizhou Engine”) (Continued)**

The assets acquired and liabilities recognised at the acquisition date are as follows:

	<b>Pre-acquisition carrying amounts RMB'000</b>	<b>Fair value adjustments RMB'000</b>	<b>Recognised values on acquisition RMB'000</b>
The net assets acquired:			
Property, plant and equipment (note 14)	874,643	–	874,643
Deferred tax assets (note 26)	5,269	–	5,269
Intangible assets (note 15)	112,710	–	112,710
Land lease prepayments (note 16)	48,851	12,300	61,151
Trade and other receivables	167,279	–	167,279
Inventories	4,493	–	4,493
Bank balances and cash	55,122	–	55,122
Trade and other payables	(800,375)	–	(800,375)
	467,992	12,300	480,292
Goodwill arising on acquisition (note 17):			
Consideration payable (note 24)			484,003
Fair value of identifiable net assets acquired			(480,292)
			3,711
Cash inflow arising on acquisition of a subsidiary:			
Bank balances and cash acquired			55,122

No acquisition-related costs had been incurred in relation to the acquisition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**33. BUSINESS COMBINATIONS (Continued)****(d) Guizhou Geely Engine Company Limited# 貴州吉利發動機有限公司 (“Guizhou Engine”) (Continued)**

As a result of the acquisition, the Group is expected to increase its manufacturing capacity to meet the increasing demand of automobiles in the PRC, as well as enhancing its production capabilities. Goodwill arose because the consideration to be paid included amounts in relation to the revenue growth and future market development of the businesses acquired. These benefits are not recognised separately from goodwill, because they do not meet the recognition criteria for identifiable intangible assets. Goodwill arising from the acquisition is not expected to be deductible for tax purpose.

Guizhou Engine has not contributed any revenue and loss from the acquisition date to 31 December 2018.

If the acquisition had occurred on 1 January 2018, the consolidated revenue and consolidated profit of the Group for the year ended 31 December 2018 would be RMB106,595,133,000 and RMB12,658,553,000, respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition had been occurred on 1 January 2018 and could not serve as a basis for the forecast of future operation results.

**(e) Taizhou Binhai Geely Engine Company Limited# 台州濱海吉利發動機有限公司 (“Binhai Engine”)**

On 5 October 2018, Zhejiang Powertrain and a fellow subsidiary owned by the Company's ultimate holding company entered into an acquisition agreement pursuant to which Zhejiang Powertrain has conditionally agreed to acquire, and the fellow subsidiary has conditionally agreed to sell the entire equity interests of Binhai Engine for a cash consideration of approximately RMB781,274,000. Binhai Engine is engaged in the preparation and construction of engine manufactory project in the PRC. The acquisition of Binhai Engine was completed on 14 December 2018. Please refer to the Company's circular dated 20 November 2018 for further details.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**33. BUSINESS COMBINATIONS (Continued)****(e) Taizhou Binhai Geely Engine Company Limited# 台州濱海吉利發動機有限公司 (“Binhai Engine”) (Continued)**

The assets acquired and liabilities recognised at the acquisition date are as follows:

	<b>Pre-acquisition carrying amounts RMB'000</b>	<b>Fair value adjustments RMB'000</b>	<b>Recognised values on acquisition RMB'000</b>
The net assets acquired:			
Property, plant and equipment (note 14)	1,018,691	—	1,018,691
Deferred tax assets (note 26)	8,269	—	8,269
Intangible assets (note 15)	248,722	—	248,722
Land lease prepayments (note 16)	70,504	26,400	96,904
Trade and other receivables	215,648	—	215,648
Inventories	105,435	—	105,435
Bank balances and cash	1,284	—	1,284
Trade and other payables	(914,503)	—	(914,503)
	754,050	26,400	780,450
Goodwill arising on acquisition (note 17):			
Consideration payable (note 24)			781,274
Fair value of identifiable net assets acquired			(780,450)
			824
Cash inflow arising on acquisition of a subsidiary:			
Bank balances and cash acquired			1,284

No acquisition-related costs had been incurred in relation to the acquisition.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

### 33. BUSINESS COMBINATIONS (Continued)

(e) **Taizhou Binhai Geely Engine Company Limited<sup>#</sup> 台州濱海吉利發動機有限公司 (“Binhai Engine”)**  
**(Continued)**

As a result of the acquisition, the Group is expected to increase its manufacturing capacity to meet the increasing demand of automobiles in the PRC, as well as enhancing its production capabilities. Goodwill arose because the consideration to be paid included amounts in relation to the revenue growth and future market development of the businesses acquired. These benefits are not recognised separately from goodwill, because they do not meet the recognition criteria for identifiable intangible assets. Goodwill arising from the acquisition is not expected to be deductible for tax purpose.

Binhai Engine has not contributed any revenue and loss from the acquisition date to 31 December 2018.

If the acquisition had occurred on 1 January 2018, the consolidated revenue and consolidated profit of the Group for the year ended 31 December 2018 would be RMB106,595,133,000 and RMB12,649,452,000, respectively. The proforma financial information is for illustrative purpose only and does not necessarily reflect the Group's revenue and operating results if the acquisition had been occurred on 1 January 2018 and could not serve as a basis for the forecast of future operation results.

<sup>#</sup> The English translation of the names of the companies established in the PRC is for reference only. The official names of these companies are in Chinese.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**34. CAPITAL MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balances. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of debt (which includes bonds payables and bank borrowings) and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

**Gearing ratio**

The Company's Board of Directors reviews the capital structure on a regular basis. As part of this review, the Board of Directors considers the cost of capital and the risks associated with each class of capital. The Group does not have a specific target gearing ratio determined as the proportion of debt to equity but will closely monitor the fluctuations of the gearing ratio.

The gearing ratio as at the reporting date was as follows:

	<b>2018</b> <b>RMB'000</b>	2017 RMB'000
Debt	<b>3,423,102</b>	1,296,460
Equity attributable to equity holders of the Company	<b>44,943,977</b>	34,467,047
Debt to equity ratio	<b>8%</b>	4%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS**

Exposure to market risk (including interest rate risk and currency risk), credit and liquidity risks arises in the normal course of the Group's business. Market risk exposures are measured using sensitivity analysis. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

These risks are limited by the Group's financial management policies and practices described below.

**Categories of financial assets and liabilities**

The carrying amounts presented in the consolidated statement of financial position relate to the following categories of financial assets and financial liabilities:

	<b>As at 31 December 2018 RMB'000</b>	<b>As at 1 January 2018 RMB'000</b>	<b>As at 31 December 2017 RMB'000</b>
<b>Financial assets</b>			
Available-for-sale financial assets			
– Unlisted equity securities	–	–	21,650
Financial assets measured at FVPL			
– Unlisted equity securities	–	21,650	–
Loans and receivables			
– Trade and other receivables	–	–	30,624,347
– Pledged bank deposits	–	–	36,043
– Bank balances and cash	–	–	13,414,638
Financial assets carried at amortised cost			
– Trade and other receivables	<b>19,119,515</b>	30,586,354	–
– Pledged bank deposits	<b>19,392</b>	36,043	–
– Bank balances and cash	<b>15,737,196</b>	13,414,638	–
	<b>34,876,103</b>	44,058,685	44,096,678
<b>Financial liabilities</b>			
Financial liabilities measured at amortised cost			
– Trade and other payables	<b>36,189,368</b>	36,168,557	36,168,557
– Bank borrowings	<b>1,375,280</b>	1,296,460	1,296,460
– Bonds payables	<b>2,047,822</b>	–	–
	<b>39,612,470</b>	37,465,017	37,465,017



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)****Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade and other receivables. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are established banks in countries that the Group operates.

The maximum exposure to credit risk without taking into account any collateral held is represented by the carrying amount of each financial asset, in the consolidated statement of financial position after deducting any loss allowance. In addition, as set out in note 32(c) to the consolidated financial statements, the Group provided guarantees to secure banking facilities granted to the Company's ultimate holding company. The directors consider the Company's ultimate holding company has sufficient financial strength and the probability of default is low. The Group does not provide any other guarantees which would expose the Group to credit risk.

In respect of trade and other receivables, credit evaluations are performed on customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic and business environment in which the customer operates. Normally, the Group does not obtain collateral from customers. In addition, most of the debtors have good credit quality as set out in note 21(a) to the consolidated financial statements.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

As at 31 December 2018, the Group has adopted average expected loss rate of 5% (1 January 2018: 5%) on the gross carrying amounts of the trade receivables amounted to RMB1,131,343,000 (1 January 2018: RMB700,701,000). The loss allowance as at 31 December 2018 is RMB47,652,000 (1 January 2018: RMB37,993,000).

Expected loss rates are based on actual loss experience over the past years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)****Credit risk (Continued)****Comparative information under HKAS 39**

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 4(h) – policy applicable prior to 1 January 2018). The aging analysis of trade debtors that were not considered to be impaired was as follows:

	<b>As at 31 December 2017 RMB'000</b>
Neither past due nor impaired	219,778
1 – 30 days past due	25,606
31 – 60 days past due	17,196
61 – 90 days past due	179,782
Over 90 days past due	258,339
	<b>700,701</b>

Receivables that were neither past due nor impaired related to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired were mainly related to large corporations that have long trading history with the Group and therefore these debtors are considered to have good credit quality and the balances are still considered to be fully recoverable. No impairment has been made to these trade receivables.

Movement in the loss allowance account in respect of trade receivables during the year is as follows:

	<b>RMB'000</b>
Balance at 31 December 2017 under HKAS 39	–
Impact on initial application of HKFRS 9 (note 3.1(a)(ii))	<b>37,993</b>
Adjusted balance at 1 January 2018	<b>37,993</b>
Impairment losses recognised during the year	<b>9,659</b>
Balance at 31 December 2018	<b>47,652</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)****Liquidity risk**

Individual operating entities within the Group are responsible for their own cash management, including short-term investment of cash surpluses and the raising of loans to cover expected cash demands. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term. As described in note 4(a), as at 31 December 2018, the Group was in net current liabilities position and management has undertaken adequate measurements to maintain the Group's liquidity.

The following table details the remaining contractual maturities at the reporting date of the Group's financial liabilities, which are based on contractual undiscounted cash flows including interest and the contractual maturities.

	Weighted average effective interest rate %	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years RMB'000	Total contractual undiscounted cash flows RMB'000	Total carrying amount as at 31 December RMB'000
<b>2018</b>						
<b>Financial liabilities measured at amortised cost</b>						
Trade and other payables	N/A	36,189,368	-	-	36,189,368	36,189,368
Bank borrowings	3.57	1,375,280	-	-	1,375,280	1,375,280
Bonds payables	3.83	74,781	74,781	2,249,872	2,399,434	2,047,822
		37,639,429	74,781	2,249,872	39,964,082	39,612,470

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)****Liquidity risk (Continued)**

	Weighted average effective interest rate %	Within one year or on demand RMB'000	More than one year but less than two years RMB'000	More than two years RMB'000	Total contractual undiscounted cash flows RMB'000	Total carrying amount as at 31 December RMB'000
2017						
<b>Financial liabilities measured at amortised cost</b>						
Trade and other payables	N/A	36,168,557	–	–	36,168,557	36,168,557
Bank borrowings	2.62	1,296,460	–	–	1,296,460	1,296,460
<b>Financial guarantee issued</b>						
Maximum amount guaranteed (note 32(c))	N/A	838,500	–	–	838,500	–
		38,303,517	–	–	38,303,517	37,465,017

The amounts included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the guarantee arrangement if that amounts are claimed by the counterparty to the guarantee on bank borrowings procured by the ultimate holding company of the Company. Based on the expectations at the reporting date, the Group considers that no amount will be payable under the guarantee contracts.

Bank borrowings with a repayment on demand clause are included in the “Within one year or on demand” time band in the above maturity analysis. As at 31 December 2018, the aggregate carrying amounts of these bank borrowings amounted to RMB1,375,280,000 (2017: RMB1,296,460,000). Taking into account the Group’s financial position, the directors do not believe that it is probable that the bank will exercise their discretionary rights to demand immediate repayment. The management believes that such bank borrowings will be repaid in accordance with the scheduled repayment date set out in the loan agreement. At that time, the aggregate principal and interest cash outflows would be amounted to RMB1,416,195,000 (2017: RMB33,967,000) and RMBNil (2017: RMB1,330,427,000) for bank borrowings as at 31 December 2018 which will be repaid within one year and more than one year but less than two years, respectively, from the reporting date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)****Interest rate risk**

The Group's interest rate risk relates primarily to bonds payables (note 23) and bank borrowings (note 25). The Group does not apply any derivatives to hedge the interest rate risk. The Group's bonds payables and bank borrowings bear fixed rate and variable rates, respectively.

The interest rate profile of the Group as at the reporting date has been set out in the liquidity risk section of this note.

As at 31 December 2018, it is estimated that an increase/(decrease) of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's profit after taxation and accumulated profits by approximately RMB13,753,000 (2017: RMB12,965,000).

**Currency risk**

The Group is exposed to currency risks primarily through sales and purchases which give rise to receivables, payables, interest bearing borrowings and bank balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The foreign currencies giving rise to this risk are primarily Hong Kong dollars, US\$, Australian dollars and Euro.

The following table details the Group's exposure as at the reporting date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	2018				2017			
	Hong Kong dollars RMB'000	US\$ RMB'000	Australian dollars RMB'000	Euro RMB'000	Hong Kong dollars RMB'000	US\$ RMB'000	Australian dollars RMB'000	Euro RMB'000
Bank balances and cash	70,912	203,656	359	74,819	143,655	289,806	5,534	100,841
Trade and other receivables	647	325,915	-	-	647	301,728	-	-
Bonds payables	-	(2,047,822)	-	-	-	-	-	-
Bank borrowings	-	(1,375,280)	-	-	-	(1,296,460)	-	-
Trade and other payables	-	(36,365)	-	-	-	(715)	-	-
Net exposure arising from recognised assets and liabilities	71,559	(2,929,896)	359	74,819	144,302	(705,641)	5,534	100,841

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**35. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)****Currency risk (Continued)**

As the Group is mainly exposed to the effects of fluctuation in Hong Kong dollars/US\$/Australian dollars/Euro, the following table indicates the approximate change in the Group's profit after taxation and accumulated profits. The sensitivity analysis includes outstanding foreign currency denominated monetary items and adjusts their translation at the reporting date for a 5% change in foreign currency rate. The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual reporting date. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2017. Results of the analysis as presented in the below table represent an aggregation of the effects on each of the Group entities' profit after taxation and accumulated profits measured in the respective functional currencies, translated into RMB at the exchange rate ruling at the reporting date for presentation purposes.

	Impact of Hong Kong		Impact of US\$		Impact of		Impact of Euro	
	dollars				Australian dollars			
	2018	2017	2018	2017	2018	2017	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit after taxation/Accumulated profits	<b>3,578</b>	7,215	<b>(150,587)</b>	(36,065)	<b>18</b>	277	<b>2,815</b>	3,790

**Fair value measurements of financial instruments*****Fair value of financial assets and liabilities carried at other than fair value***

The carrying amounts of the financial instruments of the Group's carried at cost or amortised cost are not materially different from their fair values as at 31 December 2018 and 2017 due to their short-term maturities.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY**

	<b>2018 RMB'000</b>	2017 RMB'000
<b>Non-current assets</b>		
Property, plant and equipment	<b>186</b>	232
Investments in subsidiaries	–	–
Interest in a joint venture	<b>1,788,972</b>	735,649
	<b>1,789,158</b>	735,881
<b>Current assets</b>		
Other receivables	<b>1,923</b>	1,910
Amounts due from subsidiaries	<b>5,420,270</b>	4,505,116
Bank balances and cash	<b>156,567</b>	252,887
	<b>5,578,760</b>	4,759,913
<b>Current liabilities</b>		
Other payables	<b>64,656</b>	61,109
Bank borrowings	<b>1,375,280</b>	1,296,460
	<b>1,439,936</b>	1,357,569
<b>Net current assets</b>	<b>4,138,824</b>	3,402,344
<b>Total assets less current liabilities</b>	<b>5,927,982</b>	4,138,225
<b>Capital and reserves</b>		
Share capital	<b>164,470</b>	164,286
Reserves (note)	<b>3,715,690</b>	3,973,939
<b>Total equity</b>	<b>3,880,160</b>	4,138,225
<b>Non-current liabilities</b>		
Bonds payables	<b>2,047,822</b>	–
	<b>5,927,982</b>	4,138,225

Approved and authorised for issue by the Board of Directors on 21 March 2019.

**Li Shu Fu**  
Director

**Gui Sheng Yue**  
Director

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**36. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)**

Note:

The movement of reserves represents:

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2017	6,212,325	478,714	(3,786,988)	2,904,051
Profit for the year	–	–	1,689,939	1,689,939
Transaction with owners:				
Equity settled share-based payments (note 31)	–	27,724	–	27,724
Share issued under share option scheme (note 27)	428,877	(116,598)	–	312,279
Transfer upon forfeiture of share options	–	(7,942)	7,942	–
Dividends paid to equity holders of the Company (note 11)	–	–	(960,054)	(960,054)
Total transactions with owners	428,877	(96,816)	(952,112)	(620,051)
Balance at 31 December 2017	6,641,202	381,898	(3,049,161)	3,973,939
<b>Balance at 1 January 2018</b>	<b>6,641,202</b>	<b>381,898</b>	<b>(3,049,161)</b>	<b>3,973,939</b>
<b>Profit for the year</b>	<b>–</b>	<b>–</b>	<b>1,852,559</b>	<b>1,852,559</b>
Transaction with owners:				
Equity settled share-based payments (note 31)	–	14,594	–	14,594
Share issued under share option scheme (note 27)	51,095	(15,669)	–	35,426
Transfer upon forfeiture of share options	–	(2,727)	2,727	–
Dividends paid to equity holders of the Company (note 11)	–	–	(2,160,828)	(2,160,828)
<b>Total transactions with owners</b>	<b>51,095</b>	<b>(3,802)</b>	<b>(2,158,101)</b>	<b>(2,110,808)</b>
<b>Balance at 31 December 2018</b>	<b>6,692,297</b>	<b>378,096</b>	<b>(3,354,703)</b>	<b>3,715,690</b>

As at 31 December 2018, the aggregate amount of reserves available for distribution to equity holders of the Company was RMB3,337,594,000 (2017: RMB3,592,041,000).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**37. INVESTMENTS IN SUBSIDIARIES**

Investments in subsidiaries represent unlisted shares at cost. Particulars of the principal subsidiaries at 31 December 2018 and 2017 are as follows:

Name of company	Place of incorporation/ registration and operations	Issued and fully paid up/ registered capital	Percentage of equity interests held in 2018		Percentage of equity interests held in 2017		Principal activities
			Directly	Indirectly	Directly	Indirectly	
Centurion Industries Limited	British Virgin Islands	US\$1	100%	-	100%	-	Investment holding
Value Century Group Limited	British Virgin Islands	US\$1	100%	-	100%	-	Investment holding
Geely International Limited 吉利國際貿易有限公司	Hong Kong	2 shares	100%	-	100%	-	Investment holding and export of vehicles outside the PRC
Zhejiang Fulin Guorun Automobile Parts & Components Co., Ltd** 浙江福林國潤汽車零部件有限公司	PRC	US\$15,959,200	-	100%	-	100%	Research, production, marketing and sales of automobile parts and related components in the PRC
Zhejiang Kingkong Automobile Parts & Components R&D Company Limited** 浙江金剛汽車零部件研究開發有限公司	PRC	US\$14,900,000	-	100%	-	100%	Research and development of automobile parts and components in the PRC
Zhejiang Geely Automobile Sales Company Limited# 浙江吉利汽車銷售有限公司	PRC	RMB15,000,000	-	99%	-	99%	Sales of automobile parts and components in the PRC
Zhejiang Jirun Automobile Company Limited ("Jirun Automobile")*# 浙江吉潤汽車有限公司	PRC	US\$476,636,575	-	99%	-	99%	Research, development, production, marketing and sales of vehicles and related automobile components in the PRC
Shanghai Maple Guorun Automobile Company Limited*# 上海華普國潤汽車有限公司	PRC	US\$121,363,600	-	99%	-	99%	Research, development, production, marketing and sales of vehicles and related automobile components in the PRC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**37. INVESTMENTS IN SUBSIDIARIES (Continued)**

Investments in subsidiaries represent unlisted shares at cost. Particulars of the principal subsidiaries at 31 December 2018 and 2017 are as follows (Continued):

Name of company	Place of incorporation/ registration and operations	Issued and fully paid up/ registered capital	Percentage of equity interests held in 2018		Percentage of equity interests held in 2017		Principal activities
			Directly	Indirectly	Directly	Indirectly	
Zhejiang Geely Holding Group Automobile Sales Company Limited <sup>a</sup> 浙江吉利控股集團汽車銷售有限公司	PRC	RMB60,559,006	-	99%	-	99%	Marketing and sales of vehicles in the PRC
Geely International Corporation <sup>#</sup> 上海吉利美嘉峰國際貿易股份有限公司	PRC	RMB100,000,000	-	99%	-	99%	Export of vehicles outside the PRC
Zhejiang Geely Automobile Research Institute Limited <sup>#</sup> 浙江吉利汽車研究院有限公司	PRC	RMB30,000,000	-	99%	-	99%	Research and development of vehicles and related automobile components in the PRC
Shanghai Maple Automobile Sales Company Limited <sup>#</sup> 上海華普汽車銷售有限公司	PRC	RMB60,000,000 (2017: RMB20,000,000)	-	99%	-	99%	Marketing and sales of vehicles in the PRC
Zhejiang Ruhoo Automobile Company Limited <sup>a</sup> <sup>#</sup> 浙江陸虎汽車有限公司	PRC	RMB521,676,992 (2017: RMB418,677,000)	-	99%	-	99%	Research, development, production, marketing and sales of vehicles and related automobile components in the PRC
Shanghai Jicining Mechanical and Electrical Equipment Company Limited <sup>#</sup> 上海吉茨寧機電設備有限公司	PRC	RMB20,000,000	-	99%	-	99%	Procurement of mechanical and electrical equipment in the PRC
Hunan Geely Automobile Components Company Limited <sup>a</sup> <sup>#</sup> 湖南吉利汽車部件有限公司	PRC	US\$88,500,000	-	99%	-	99%	Research, development, production, marketing and sales of vehicles and related automobile components in the PRC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**37. INVESTMENTS IN SUBSIDIARIES (Continued)**

Investments in subsidiaries represent unlisted shares at cost. Particulars of the principal subsidiaries at 31 December 2018 and 2017 are as follows (Continued):

Name of company	Place of incorporation/ registration and operations	Issued and fully paid up/ registered capital	Percentage of equity interests held in 2018		Percentage of equity interests held in 2017		Principal activities
			Directly	Indirectly	Directly	Indirectly	
Shanghai Jichong Power Technology Company Limited <sup>#</sup> 上海吉聰動力技術有限公司	PRC	RMB80,000,000	-	99%	-	99%	Research and development of electric hybrid engines in the PRC
Zhejiang Vision Auto-parts Fittings Company Limited <sup>#</sup> 浙江遠景汽配有限公司	PRC	RMB50,000,000	-	99%	-	99%	Procurement of automobile parts and components in the PRC
Chengdu Gaoyuan Automobile Industries Company Limited <sup>#</sup> 成都高原汽車工業有限公司	PRC	RMB50,000,000	-	99%	-	99%	Research, development, production, marketing and sales of vehicles and related automobile components in the PRC
Hunan Luoyou Engine Components Company Limited <sup>#</sup> 湖南羅佑發動機部件有限公司	PRC	RMB150,000,000	-	99%	-	99%	Production of automobile components in the PRC
Jinan Geely Automobile Company Limited <sup>#</sup> 濟南吉利汽車有限公司	PRC	RMB360,000,000	-	99%	-	99%	Research, development, production, marketing and sales of vehicles and sales of related automobile components in the PRC
Jinan Geely Automobile Parts and Components Company Limited <sup>#</sup> 濟南吉利汽車零部件有限公司	PRC	RMB10,000,000	-	99%	-	99%	Research, development, production, marketing and sales of related automobile components in the PRC
Ningbo Vision Automobile Parts and Components Company Limited <sup>#</sup> 寧波遠景汽車零部件有限公司	PRC	RMB96,000,000	-	99%	-	99%	Research, development, production, marketing and sales of vehicles and related automobile components in the PRC
Baoji Geely Engine Company Limited <sup>#</sup> 寶雞吉利發動機有限公司	PRC	RMB300,000,000	-	99%	-	99%	Research, development, production and sales of vehicle engines and related after-sales parts in the PRC
Ningbo Shangzhongxia Automatic Transmission Company Limited <sup>#</sup> 寧波上中下自動變速器有限公司	PRC	RMB1,000,000,000	-	99%	-	99%	Research, development, production and sales of vehicle transmissions and related after-sales parts in the PRC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**37. INVESTMENTS IN SUBSIDIARIES (Continued)**

Investments in subsidiaries represent unlisted shares at cost. Particulars of the principal subsidiaries at 31 December 2018 and 2017 are as follows (Continued):

Name of company	Place of incorporation/ registration and operations	Issued and fully paid up/ registered capital	Percentage of equity interests held in 2018		Percentage of equity interests held in 2017		Principal activities
			Directly	Indirectly	Directly	Indirectly	
Zhejiang Yili Automobile Components Company Limited# 浙江義利汽車零部件有限公司	PRC	RMB500,000,000	-	99%	-	99%	Research, development, production and sales of vehicle engines and related after-sales parts in the PRC
Limited Liability Company "Borisov Engine Plant (Geely)"	Belarus	BYN1,000,000	-	51%	-	51%	Production, marketing and sales of vehicles
Limited Liability Company "Geely Motors"	Russia	Russian Rouble 10,000	-	99%	-	99%	Marketing and sales of vehicles in Russia
Zhejiang Fengrui Engine Company Limited# 浙江鋒銳發動機有限公司	PRC	RMB100,000,000	-	99%	-	99%	Production of automobile engines in the PRC
Zhejiang Geely Powertrain Company Limited (formerly known as Zhejiang Geely Luoyou Engine Company Limited)# 浙江吉利動力總成有限公司 (前稱浙江吉利羅佑發動機有限公司)	PRC	RMB500,000,000	-	99%	-	99%	Production of automobile engines in the PRC
Ningbo Geely Luoyou Engine Components Company Limited# 寧波吉利羅佑發動機零部件有限公司	PRC	RMB282,800,000	-	99%	-	99%	Production of automobile components in the PRC
Taizhou Geely International Corporation 台州吉利汽車銷售有限公司	PRC	RMB10,000,000	-	99%	-	99%	Marketing and sales of vehicles in the PRC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**37. INVESTMENTS IN SUBSIDIARIES (Continued)**

Investments in subsidiaries represent unlisted shares at cost. Particulars of the principal subsidiaries at 31 December 2018 and 2017 are as follows (Continued):

Name of company	Place of incorporation/ registration and operations	Issued and fully paid up/ registered capital	Percentage of equity interests held in 2018		Percentage of equity interests held in 2017		Principal activities
			Directly	Indirectly	Directly	Indirectly	
Zhejiang Jirun Chunxiao Automobile Components Company Limited <sup>#</sup> 浙江吉潤春曉汽車部件有限公司	PRC	RMB1,100,000,000	-	99%	-	99%	Research, development, production, marketing and sales of vehicles and related automobile components in the PRC
Shanxi New Energy Automobile Sales Company Limited <sup>#</sup> 山西新能源汽車銷售有限公司	PRC	RMB5,000,000	-	99%	-	99%	Marketing and sales of vehicles in the PRC
Baoji Geely Automobile Sales Company Limited <sup>#</sup> 寶雞吉利汽車銷售有限公司	PRC	RMB5,000,000	-	99%	-	99%	Marketing and sales of vehicles in the PRC
Baoji Geely Automobile Components Company Limited <sup>#</sup> 寶雞吉利汽車部件有限公司	PRC	RMB700,000,000	-	99%	-	99%	Research, development, production, marketing and sales of vehicles and related automobile components in the PRC
Shanxi Geely Automobile Components Company Limited <sup>#</sup> 山西吉利汽車部件有限公司	PRC	RMB600,000,000	-	99%	-	99%	Research, development, production, marketing and sales of vehicles and related automobile components in the PRC
Zhejiang Geely International Limited <sup>#</sup> 浙江吉利汽車國際貿易有限公司	PRC	RMB10,000,000	-	99%	-	99%	Export of vehicles outside the PRC
Geely Automobile Research Institute (Ningbo) Company Limited <sup>#</sup> 吉利汽車研究院(寧波)有限公司	PRC	RMB30,000,000	-	99%	-	99%	Research and development of vehicles and related automobile components in the PRC
Ningbo Jirun Automobile Components Company Limited <sup>#</sup> (note 33(a)) 寧波吉潤汽車部件有限公司	PRC	RMB1,200,000,000	-	99%	-	-	Research and development, manufacturing, promotion and sales of vehicles and related automobile components and provision of related after-sales and technical services in the PRC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**37. INVESTMENTS IN SUBSIDIARIES (Continued)**

Investments in subsidiaries represent unlisted shares at cost. Particulars of the principal subsidiaries at 31 December 2018 and 2017 are as follows (Continued):

Name of company	Place of incorporation/ registration and operations	Issued and fully paid up/ registered capital	Percentage of equity interests held in 2018		Percentage of equity interests held in 2017		Principal activities
			Directly	Indirectly	Directly	Indirectly	
Hangzhou Geely Automobile Company Limited* (note 33(b)) 杭州吉利汽車有限公司	PRC	RMB890,000,000	-	99%	-	-	Research and development, manufacturing, promotion and sales of vehicles and related automobile components and provision of related after-sales and technical services in the PRC
Guizhou Geely Automobile Components Company Limited* (note 33(c)) 貴州吉利汽車部件有限公司	PRC	RMB1,030,000,000	-	99%	-	-	Research and development, manufacturing, promotion and sales of vehicles and related automobile components and provision of related after-sales and technical services in the PRC
Guizhou Geely Engine Company Limited* (note 33(d)) 貴州吉利發動機有限公司	PRC	RMB480,000,000	-	99%	-	-	Preparation and construction of engine manufactory project in the PRC
Taizhou Binhai Geely Engine Company Limited* (note 33(e)) 台州濱海吉利發動機有限公司	PRC	RMB770,000,000	-	99%	-	-	Preparation and construction of engine manufactory project in the PRC
Guiyang Geely Automobile Sales Company Limited* (note) 貴陽吉利汽車銷售有限公司	PRC	RMB5,000,000	-	99%	-	-	Marketing and sales of vehicles in the PRC
Shanghai Geely Diran Automobile Design Company Limited* (note) 上海吉利躍然汽車設計有限公司	PRC	RMB30,000,000	-	99%	-	-	Provision of vehicles design services in the PRC

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**37. INVESTMENTS IN SUBSIDIARIES (Continued)**

Investments in subsidiaries represent unlisted shares at cost. Particulars of the principal subsidiaries at 31 December 2018 and 2017 are as follows (Continued):

Name of company	Place of incorporation/ registration and operations	Issued and fully paid up/ registered capital	Percentage of equity interests held in 2018		Percentage of equity interests held in 2017		Principal activities
			Directly	Indirectly	Directly	Indirectly	
Hangzhou Geely Vision Purchasing Company Limited* (note) 杭州吉利遠景採購有限公司	PRC	RMB10,000,000	-	99%	-	-	Procurement of automobile parts and components in the PRC

\* The Company's subsidiary in the PRC is wholly foreign-owned enterprise established for a period of 30 to 50 years.

^ The Company's subsidiary in the PRC is sino-foreign equity joint venture established for a period of 30 to 50 years.

# The English translation of the names of the companies established in the PRC is for reference only. The official names of these companies are in Chinese.

Note: These subsidiaries were newly set up during the year.

None of the subsidiaries had issued any debt securities during the year or at the end of the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

**37. INVESTMENTS IN SUBSIDIARIES (Continued)**

The following table lists out the information related to subgroup of Jirun Automobile, the subsidiary of the Group which has material non-controlling interest. The summarised financial information presented below represents the amounts before any inter-company elimination.

	<b>2018</b>	2017
	<b>RMB'000</b>	RMB'000
Non-controlling interest percentage	<b>1%</b>	1%
Non-current assets	<b>40,769,676</b>	24,605,243
Current assets	<b>61,791,206</b>	54,455,627
Current liabilities	<b>(63,679,664)</b>	(51,106,788)
Non-current liabilities	<b>(4,073,582)</b>	(2,855,173)
Net assets	<b>34,807,636</b>	25,098,909
Carrying amount of non-controlling interest	<b>344,650</b>	246,844
Revenue	<b>129,529,988</b>	112,600,002
Profit for the year	<b>9,692,974</b>	7,695,600
Other comprehensive income for the year	<b>87,645</b>	9,167
Total comprehensive income for the year	<b>9,780,619</b>	7,704,767
Profit allocated to non-controlling interest	<b>96,930</b>	76,956
Other comprehensive income allocated to non-controlling interest	<b>876</b>	92
Dividend paid to non-controlling interest	<b>–</b>	–
Cash flows generated from operating activities	<b>12,239,546</b>	10,464,756
Cash flows used in investing activities	<b>(10,885,992)</b>	(10,242,999)
Cash flows generated from financing activities	<b>–</b>	314
Net cash inflows	<b>1,353,554</b>	222,071

**38. COMPARATIVE FIGURES**

The Group has initially applied HKFRS 9 and HKFRS 15 as at 1 January 2018. Under the transition methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.



## APPENDIX II

### DESCRIPTION OF THE ISSUER

#### 1. Incorporation, Duration, Seat and Purpose

SG Issuer was incorporated on 16 November 2006 for an unlimited duration as a limited liability company under the laws of Luxembourg. SG Issuer is a 100 percent. subsidiary of the Société Générale Bank & Trust S.A. and a fully consolidated company. SG Issuer has no subsidiaries.

SG Issuer's registered address is located at 16, Boulevard Royal, L-2449, Luxembourg. SG Issuer is registered in the Luxembourg trade and companies register under No. B 121.363. SG Issuer has not established a place of business in Singapore.

SG Issuer's purpose and object pursuant to SG Issuer's Articles of Association, is to invest in particular financial instruments, or any other debt securities, acknowledgements of debts or capital securities and to issue debt securities, bonds, certificates, warrants and other debt securities or acknowledgements of debt or financial securities.

#### 2. Share Capital

SG Issuer's issued capital as at 28 February 2019 is EUR 2,000,240 divided into 50,006 ordinary shares of EUR 40.00 each, all issued and fully paid up.

#### 3. Indebtedness

As at the date of this document SG Issuer has no hire purchase commitments, guarantees or other material contingent liabilities.

Under a debt instruments issuance programme, SG Issuer (together with the Guarantor, SGA Société Générale Acceptance N.V. and SG Option Europe) may issue medium term notes. As at 28 February 2019, debt instruments amounting to EUR 183,600,332,090.27 (non-audited) were issued under the aforementioned programme. The medium term notes issued by SG Issuer, SGA Société Générale Acceptance N.V. and SG Option Europe under the Debt Instruments Issuance Programme are unconditionally and irrevocably guaranteed by the Guarantor.

#### 4. Management and Supervision

Pursuant to SG Issuer's Articles of Association, SG Issuer is managed by an executive board under the supervision of a supervisory board. The members of the executive board as at 31 December 2018 are Yves Cacclin, Laurent Weil, Alexandre Galliche, Thierry Bodson, Estelle Stephen-Jaspard, Noel Alison and Amaury de Beler (individually a "**Director**" and collectively the "**Executive Board**"). Laurent Weil, Alexandre Galliche, Yves Cacclin and Thierry Bodson currently hold full-time management positions within the Société Générale Group.

The business address of Laurent Weil, Noel Alison and Estelle Stephen-Jaspard as at 31 December 2018 is Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France. The business address of Alexandre Galliche, Yves Cacclin, Thierry Bodson and Amaury de Beler is 11, avenue Emile Reuter, L-2420 Luxembourg.

#### 5. General Meetings of Shareholders

The annual general meeting of shareholders is held on the penultimate Thursday of March or, if it is not a bank working day in Luxembourg, the following day.

Shareholders are entitled to one vote per share. Resolutions proposed at ordinary annual general meetings of shareholders require a simple majority of the votes cast. Resolutions proposed at extraordinary meetings of shareholders require a two third of the votes cast when the resolution deals with either a modification of the Issuer's Articles of Association or the Issuer's dissolution.

Each time all of the shareholders are present or represented and if they declare being informed of the agenda of the shareholders meeting, the shareholders meeting can be held without notification.

## **6. Financial Information**

SG Issuer publishes both unaudited condensed interim financial information and report and audited annual financial statements following the end of each financial year. SG Issuer's financial year runs from 1 January to 31 December. SG Issuer does not publish consolidated statement.

For the six-month period ended 30 June 2018, the condensed interim financial information was published in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and reviewed, without qualification. For the financial year ended on 31 December 2017 and 31 December 2018, the accounts were published in accordance with international financial reporting standards as adopted by the European Union (IFRS) and audited, without qualification.

SG Issuer's financial liabilities at fair value through profit or loss increased from EUR 47.9 billion on 31 December 2017 to EUR 49.2 billion on 31 December 2018. The EUR 1.3 billion increase can be detailed as follows:

- Increase in EUR 1.0 billion for notes issued under the euro medium term note programme activity; and
- Decrease in EUR 0.4 billion for the warrants.

The nominal of warrants activity in the related off-balance sheet is approximately EUR 124.5 billion as of 31 December 2018.

Please also refer to the section headed "Supplemental General Information" on pages 59 to 60 of this document for further details about SG Issuer's financial position since last financial year-end.

Save as disclosed in this document, no person has, or is entitled to be given, an option to subscribe for SG Issuer's shares or debentures.

SG Issuer's Deed of Incorporation provides that SG Issuer's directors may exercise all SG Issuer's powers to borrow money for the purposes of the company without limit and upon such terms as they think fit.

### **APPENDIX III**

#### **REPRODUCTION OF THE ANNUAL FINANCIAL STATEMENTS OF THE ISSUER AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2018 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 2018 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 2018**

**16, boulevard Royal**  
**L-2449 Luxembourg**  
**R.C.S. Luxembourg: B121.363**

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## **Functional and presentation currency**

Except otherwise indicated, the amounts presented in the financial statements are expressed in thousands of euros (KEUR). The value "0" indicates the presence of a number, which is rounded to zero, while "-" represents the value nil.

**Executive Board Members**  
For the year ended 31 December 2018

Chairman:

**Mr Yves CACCLIN**

Employee of Société Générale Bank & Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

Directors:

**Mr Amaury de BELER**

Employee of Société Générale Bank & Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

**Mr Alexandre GALLICHE**

Employee of Société Générale Bank & Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

**Mr Thierry BODSON**

Employee of Société Générale Bank & Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

**Mr Noël ALISON**

Employee of Société Générale  
Tour Société Générale, 17, cours Valmy, F-92987 Paris- La Défense 7, France

**Mr Arnaud SERRES (until 25/06/2018)**

Employee of Société Générale  
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

**Mrs Estelle STEPHEN JASPARD (since 25/06/2018)**

Employee of Société Générale  
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

**Mrs Sophie ROBATSCH-CLAIVE (until 25/10/2018)**

Employee of Société Générale  
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

**Mr Laurent WEIL (since 25/10/2018)**

Employee of Société Générale  
Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

### **Supervisory Board Members**

For the year ended 31 December 2018

#### Chairman:

**Mrs Véronique DE LA BACHELERIE (until 25/06/2018)**

Employee of Société Générale Bank & Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

**Mr Arnaud JACQUEMIN (since 25/09/2018)**

Employee of Société Générale Bank & Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

#### Members:

**Mr Olivier FREITAS**

Employee of Société Générale Bank & Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

**Mr Didier LALLEMAND**

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

**Mr Alban ROMANET (until 25/06/2018)**

Employee of Société Générale Bank & Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

**Mr Gregory CLAUDY (since 01/08/2018)**

Independent Director  
225A, rue du Burgknapp, B-6717 Heinstert, Belgium

## **Audit Committee Members**

### **Chairman:**

#### **Mr Gregory CLAUDY**

Independent Director

225A, rue du Burgknapp, B-6717 Heinstert, Belgium

### **Members:**

#### **Mr Didier LALLEMAND**

Employee of Société Générale

Tour Société Générale, 17, cours Valmy, F-92987 Paris-La Défense 7, France

#### **Mr Olivier FREITAS**

Employee of Société Générale Bank & Trust

11, avenue Emile Reuter, L-2420 Luxembourg



## **Management and administration**

For the year ended 31 December 2018

### **Issuer**

SG Issuer  
16, Bd Royal, L-2449 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, France

### **Security Trustee and Security Agent Trustee**

BNY Mellon Corporate Trustee Services Limited  
One Canada Square, London E14 5AL

### **Collateral Custodian**

BNY Mellon (Luxembourg) S.A.  
2-4, rue Eugène Ruppert, L-2453 Luxembourg

### **Collateral Monitoring Agent**

BNY Mellon London Branch  
One Canada Square London E14 5AL

### **Custodian Agent, Issuing and Paying Agent, Registrar, Exchange Agent and Transfer Agent**

Société Générale Bank & Trust  
11, avenue Emile Reuter, L-2420 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 Bank & Trust  
11, avenue Emile Reuter, L-2420 Luxembourg

**Legal advisers and Réviseur d'entreprises agréé**

For the year ended 31 December 2018

**Legal advisers**

*To the Arranger as to English, French and U.S. laws*

Allen & Overy LLP

52, avenue Hoche, F-75008 Paris, 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

33, avenue John F. Kennedy, L-1855 Luxembourg, Luxembourg

**Réviseur d'entreprises agréé (Independent Auditor)**

Ernst & Young S.A.

35E, Avenue John F. Kennedy, L-1855 Luxembourg

## **Report of the Executive Board and Corporate Governance Statement**

For the year ended 31 December 2018

The Directors of the Company (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 2018.

### **1. ACTIVITIES AND REVIEW OF THE DEVELOPMENT OF THE BUSINESS**

The corporate objects of SG Issuer are 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, etc., 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 will be transferred to SG Paris through a fully funded swap, which will perfectly hedge 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 sold by SG Issuer mainly to clients in France, Belgium, Luxembourg, UK, Sweden, Finland, Norway, Spain, Hong-Kong, the Netherlands, Italy and Singapore.

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 Prospectus prepared by Société Générale as arranger. The main programmes for Notes are the two Debt Instruments Issuance Programmes, for which the last updates have been approved by the CSSF on 20 June 2018 or the “Programme d'Emission de Titres de Créance” approved by the CSSF on 27 June 2018. Similarly, the main programmes for Warrants are the Issuance Programme approved by the CSSF on 4 July 2018 and the Warrants and Turbo Warrants Issuance Programme approved by the CSSF on 16 July 2018. Two programmes are hosted by SG Frankfurt, Dual Language DIIP dated 24 August 2018 and Dual Language Daily Leveraged Products dated 26 October 2018. The Hong Kong warrants Programme was last updated on 3 April 2018 and the Singapore warrants Programme was last updated on 21 June 2018.

The state of business of the Company at the closing of the financial year is adequately presented in the financial statements, published herewith. The increase in total assets and liabilities (before impact of the off-setting) is due to the development of the activity of issuing financial instruments.

During the year ended 31 December 2018, 14 678 Notes were issued (among which 228 Secured Notes) and 9 708 Warrants were issued<sup>1</sup>. The profit for the financial year amounts to KEUR 187.

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 swap 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 20 hereafter.

## **3. FUTURE DEVELOPMENTS**

In the context of the Brexit, the issuer is currently filing an additional debt issuance program (the “DIIP UK”) dedicated to the issuance of notes distributed in the United Kingdom. More globally, the Executive Board expects a further increase in the Notes and Warrants issued.

## **4. SUBSEQUENT EVENTS**

There was no subsequent event which could have a significant impact on the financial statements of the Company as at and for the year ended 31 December 2018.

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<sup>1</sup> The number of issued Notes and Warrants does not take into account the issuances which have been issued and cancelled during the same financial year-end.

## **5. 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.

### **5.1 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 several times during the year when necessary.

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

### **5.2 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.

### **5.3 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.

The first Audit Committee of the Company took place on 25 September 2018, announced its composition and revised the Condensed interim financial information as of 30 June 2018. At least one member of the committee must be independent, which is the case of the Chairman of the Company's Audit Committee. The next audit committee will take place before the approval of the annual accounts 2018.

#### **5.4 Internal Audit**

The Internal Audit of both SGBT (Luxembourg) and Société Générale Group 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.

#### **5.5 Controls of conformity/compliance**

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.

The Chief Financial Officer of the Company ensures the coordination of the periodic accounting closing with all the teams involved while performing a second level control of conformity.

#### **5.6 New Products Committee**

All the new activities and business of the Company are analyzed 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.

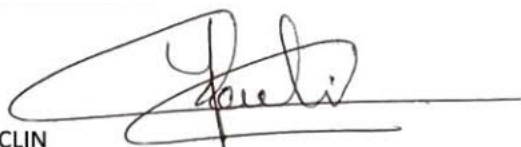
#### **5.7 Service level agreements**

The Company and several of its service providers are subsidiaries of the Société Générale Group and therefore benefit from the Group's internal control systems.

Service Level Agreements ("SLAs") were signed by the Company with SGBT and with Société Générale. The SLAs govern the relations between the entities as well as their respective obligations. The services supplied by SGBT and Société Générale are listed in the appendices of the agreements (mainly General services, legal services, business continuity management services and financial services from SGBT and operational services – Middle Office and Back Office – from Société Générale).

Luxembourg, 29 April 2019

For the Executive Board



Yves CACCLIN  
Chairman of the Executive Board



Alexandre GALLICHE  
Member of the Executive Board



Thierry BODSON  
Member of the Executive Board

Global Statement for the financial statements

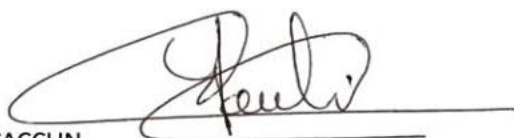
For the year ended 31 December 2018

To the best of our knowledge, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2018, 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 2019

Executive Board Member

For the Executive Board



Yves CACCLIN

Chairman of the Executive Board



Alexandre GALLICHE

Member of the Executive Board



Thierry BODSON

Member of the Executive Board



## **Report of the réviseur d'entreprises agréé**

To the sole Shareholder of  
SG Issuer S.A.  
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 2018, 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 2018, 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 those Regulation, Law and standards 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 Ethics Standards Board for Accountants' Code of Ethics for Professional 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 and valuation of financial instruments

#### *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 Paris replicating the financial instruments issued by the Company (see Notes 5 and 8).

We have considered the hedging of financial instruments issued and the valuation of financial instruments to be a key audit matter considering the financial risk which could result from inadequate hedging of the financial instruments issued by the Company.

#### *How the matter was addressed in our audit*

All the financial instruments issued by the Company are covered by mirror transactions concluded with Société Générale Paris.

We have tested the controls implemented by the Company in relation with the issuance of financial instruments and the conclusion of mirror transactions with Société Générale to hedge the market risks, the controls on the stock of financial instruments, as well as the controls implemented in relation with the valuation of the financial instruments.

We have verified the intercompany reconciliation process between the Company and Société Générale, and the intercompany reconciliations performed as at 31 December 2018.

For a sample of financial instruments issued by the Company as at 31 December 2018, we ensured that the Company has contracted the corresponding financial instruments with Société Générale to hedge the market risks.

We have performed an independent valuation of a sample of financial instruments as at 31 December 2018, which was composed of key items and other items selected randomly.

Also, we have inquired the Company 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.

## **Responsibilities of the Executive Board and of those charged with governance 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.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **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 Board's 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 Company's 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 to communicate with 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 26 April 2018 and the duration of our uninterrupted engagement, including previous renewals and reappointments, is 2 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.

### **Other matters**

The corporate governance statement includes the information required by article 68ter paragraph (1) 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.

Ernst & Young  
Société anonyme  
Cabinet de révision agréé



Charles Dequaire

Luxembourg, 29 April 2019

Statement of Profit and Loss and Other Comprehensive Income  
For the year ended 31 December 2018  
(Expressed in thousands of EUR)

	Note	2018	2017
Interest income	12	1 682	1 059
Net gains on financial instruments at fair value through profit or loss	13	66 619	91 294
Reversal of impairments		1	-
Total revenues		<u>68 302</u>	<u>92 353</u>
Interest expenses	12	(33 035)	(64 279)
Personnel expenses	14	(320)	(344)
Other operating expenses	15	(34 696)	(27 625)
Total expenses		<u>(68 051)</u>	<u>(92 248)</u>
Profit before tax		<u>251</u>	<u>105</u>
Income tax	16	(64)	(27)
Profit for the financial year		<u>187</u>	<u>78</u>
Total comprehensive income for the financial year		<u>187</u>	<u>78</u>

Statement of Financial Position  
As at 31 December 2018  
(Expressed in thousands of EUR)

	Note	31.12.2018	31.12.2017
Cash and cash equivalents	4	79 584	114 889
Financial assets at fair value through profit or loss			
- Designated at fair value through profit or loss	5		44 051 537
- Mandatorily measured at fair value through profit or loss	5	45 062 134	
- Trading derivatives	5	4 168 362	3 806 822
Loans and receivables	6	52 570	53 661
Total assets		<u>49 362 650</u>	<u>48 026 909</u>
Financial liabilities at amortised cost	7	96 284	110 734
Financial liabilities at fair value through profit or loss			
- Designated at fair value through profit or loss	8	45 053 728	44 048 143
- Trading derivatives	8	4 170 486	3 818 679
Other liabilities	9	13 039	43 668
Tax liabilities	16	64	27
Total liabilities		<u>49 333 601</u>	<u>48 021 251</u>
Share capital	10	2 000	2 000
Share premium	10	25 000	-
Legal reserve	11	200	200
Other reserves	11	1 662	3 380
Profit for the financial year		187	78
Total equity		<u>29 049</u>	<u>5 658</u>
Total equity and liabilities		<u>49 362 650</u>	<u>48 026 909</u>

Impacts of the first time application ("FTA") of IFRS 9 are disclosed in Note 3.1.2.

**Statement of Changes in Equity**  
For the year ended 31 December 2018  
(Expressed in thousands of EUR)

	Share capital	Share premium	Legal reserve	Other unavailable reserves	Other available reserves	Total reserves	Profit for the financial year	Total equity
<b>As at 31 December 2016</b>	<b>2 000</b>	-	200	3 382	2 275	<b>5 857</b>	<b>373</b>	<b>8 230</b>
Transfer to available reserves	-	-	-	(1 718)	1 718	-	-	-
Allocation of the result of the previous year before dividend distribution	-	-	-	-	373	<b>373</b>	(373)	-
Dividend to the sole shareholder	-	-	-	-	(2 649)	<b>(2 649)</b>	-	(2 649)
Capital increase/Allocation to the share premium account	0	67 533	-	-	-	-	-	67 533
Reimbursement of the share premium	-	(67 533)	-	-	-	-	-	(67 533)
Profit for the financial year 2017	-	-	-	-	-	-	78	78
<b>As at 31 December 2017</b>	<b>2 000</b>	-	200	1 664	1 716*	<b>3 580*</b>	<b>78</b>	<b>5 658*</b>
Allocation of the result of the previous year before dividend distribution	-	-	-	-	78	<b>78</b>	(78)	-
Transfer to available reserves	-	-	-	(1 664)	1 664	-	-	-
Dividend to the sole shareholder	-	-	-	-	(1 794)	<b>(1 794)</b>	-	<b>(1 794)</b>
IFRS 9 FTA impact (Note 3.1.2)	-	-	-	-	(2)	<b>(2)</b>	-	<b>(2)</b>
Capital increase/Allocation to the share premium account (Note 10)	0	62 725	-	-	-	-	-	<b>62 725</b>
Reimbursement of the share premium (Note 10)	-	(37 725)	-	-	-	-	-	<b>(37 725)</b>
Profit for the financial year 2018	-	-	-	-	-	-	<b>187</b>	<b>187</b>
<b>As at 31 December 2018</b>	<b>2 000</b>	<b>25 000</b>	200	-	1 662	<b>1 862</b>	<b>187</b>	<b>29 049</b>

\* Difference due to roundings.



Statement of Cash Flows  
For the year ended 31 December 2018  
(Expressed in thousands of EUR)

	Note	2018	2017
OPERATING ACTIVITIES			
Profit for the financial year		187	78
<u>Adjustments for:</u>			
Net (Increase) / decrease in financial assets		(1 371 046)	5 305 660
Net Increase / (decrease) in financial liabilities		1 405 667	(5 241 449)
(Increase)/decrease in other assets		-	3 151
Increase/(decrease) in tax liabilities and other liabilities		(30 592)	28 487
Other (IFRS 9 impact)		(2)	-
NET CASH FLOWS FROM OPERATING ACTIVITIES		<u>4 214</u>	<u>95 927</u>
FINANCING ACTIVITIES			
Payment of capital surplus*	10	(37 725)	(67 533)
Dividend paid		(1 794)	(2 649)
NET CASH FLOWS FROM/(USED IN) FINANCING ACTIVITIES		<u>(39 519)</u>	<u>(70 182)</u>
Cash and cash equivalents at the beginning of the year	4	114 889	89 144
Net increase/(decrease) in cash and cash equivalents		<u>(35 305)</u>	<u>25 745</u>
Cash and cash equivalents at the end of the year		<u><u>79 584</u></u>	<u><u>114 889</u></u>
Cash flows from interest and dividends			
Interest paid		38 566	69 078
Interest received		1 682	1 279
Dividend received		-	-

\* KEUR 37 725 represent the share premium reimbursed by the Company to the sole shareholder (see Note 10).

## **Notes to the financial statements**

As at 31 December 2018

### **1. Corporate information**

SG Issuer (hereafter the "Company" or "SGIS") is a Luxembourg Company incorporated on 16 November 2006 as a public limited-liability Company (S.A.) 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, Warrants, 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 is fully owned by Société Générale Bank & Trust S.A. (hereafter "SGBT"), a bank incorporated under Luxembourg law.

The accounts of the Company are included in the consolidated accounts of SGBT, which is the smallest body of undertakings of which the Company forms a part as a subsidiary undertaking, and whose head-office is located at 11, avenue Emile Reuter, L-2420 Luxembourg.

The accounts of the Company are included in the consolidated accounts of Société Générale (hereafter "SG" or the "ultimate 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.

### **2. Basis of preparation**

#### **2.1. Statement of compliance**

The financial statements of the Company as at and for the year ended 31 December 2018 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").

## **Notes to the financial statements**

As at 31 December 2018

– continued –

### **2. Basis of preparation (continued)**

#### **2.1. Statement of compliance (continued)**

The financial statements were authorised for issue by the Supervisory Board on 29 April 2019.

#### **2.2. Basis of measurement of financial assets and financial liabilities**

Financial assets and financial liabilities linked to the issuance activity of the Company are measured at fair value through profit or loss. All other financial assets and financial liabilities are measured at amortised cost.

#### **2.3. 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).

#### **2.4. Use of estimates and judgements**

The preparation of the Company's financial statements requires management 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 management 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, management 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 management judgment and/or estimates are listed below with respect to judgments/estimates involved.

The use of 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 5 and 8);
- the amount of impairment and provisions for credit risk related to financial assets measured at amortised cost (see Note 6).

For the application of IFRS 9, the Company has expanded the use of estimates and judgement in analyzing the contractual cash flow characteristics of financial assets, assessing the increase in credit risk observed since the initial recognition of financial assets, and measuring the amount of expected credit losses on these same financial assets (See 3.4.2.8).

## Notes to the financial statements

As at 31 December 2018

– continued –

### 2.5. Segmental information

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 (Société Générale S.A.).

### 3. Significant accounting policies

#### 3.1 Changes in accounting policies

##### 3.1.1 New accounting standards applied by the Company as at 1 January 2018

IFRS 9 "Financial Instruments" (see Notes 3.1.1.1.)

IFRS 15 "Revenue from Contracts with Customers" and subsequent clarifications (Note 3.1.1.2.)

Amendments to IFRS 2 "Classification and Measurement of Share-based Payment Transactions" (Note 3.1.1.3)

Amendments to IFRS 4: Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts" (Note 3.1.1.3)

Annual improvements (2014-2016) (Note 3.1.1.3)

Amendments to IAS 40 "Transfers of Investment Property" (Note 3.1.1.3)

IFRIC 22 "Foreign Currency Transactions and Advance Consideration" (Note 3.1.1.3)

Amendments to IFRS 9 "Prepayment Features with Negative Compensation" (see Note 3.1.1.3)

##### 3.1.1.1 IFRS 9 "FINANCIAL INSTRUMENTS" AND SUBSEQUENT AMENDMENTS

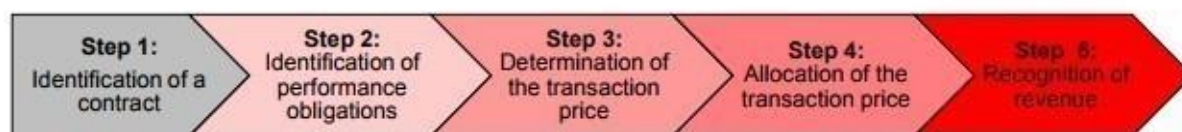
The impacts of the first-time application of IFRS 9 are presented in Note 3.1.2 "First-time application of IFRS 9".

##### 3.1.1.2 IFRS 15 "REVENUE FROM CONTRACTS WITH CUSTOMERS" AND SUBSEQUENT CLARIFICATIONS

This standard supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and their interpretations and sets out the new requirements for recognising revenues earned from all types of contracts entered into with customers, with the exception of leases, insurance contracts, contracts in financial instruments and guarantees.

The recognition of revenues in the statement of profit and loss shall depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services.

To apply this core principle, IFRS 15 provides a five-step model from the identification of the contract with the customer until the recognition of the related revenue when the performance obligation is fulfilled:



The Company has performed a review of the accounting treatments applied in prior periods for the recognition of revenues generated by contracts with customers and has assessed that they comply with the treatments provided by IFRS 15.

**Notes to the financial statements**

As at 31 December 2018

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**3.1.1.3 Other amendments**

The application of the following amendments had no significant impact on the Company's net income and equity.

**Amendments to IFRS 2 "Classification and Measurement of Share-Based Payment Transactions"**

*Issued by IASB on 20 June 2016*

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

**Annual improvements (2014-2016)**

As part of the annual Improvements to International Financial Reporting Standards, the IASB has issued an amendment to IAS 28 "Investments in Associates and Joint Ventures". The amendment to IAS 28 clarifies the measurement of investments in associates or joint ventures held by a venture capital organisation or other qualifying entity.

**Amendments to IAS 40 "Transfers of Investment Property"**

*Issued by IASB on 8 December 2016*

These amendments reinforce the principle according to which the entity shall transfer property into or out of the investment property category. Such a transfer shall occur if and only if property meets, or ceases to meet, the definition of investment property and if there is evidence of a change in management's intentions regarding the use of the property.

**IFRIC 22 "Foreign Currency Transactions and Advance Consideration"**

*Issued by IASB on 8 December 2016*

This interpretation clarifies the accounting for foreign currency transactions (payments or prepayments).

The transaction shall provide a consideration that is denominated or priced in a foreign currency. Before this transaction, a prepayment asset or a deferred income liability shall be recognised and considered as a nonmonetary item. The date of the transaction, for determining the exchange rate, is the date of initial recognition of the non-monetary asset or liability, except when there are multiple payments or receipts in advance, in which case the date of transaction will be established for each payment or receipt.

**Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts**

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 Insurance Contracts, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

**Notes to the financial statements**

As at 31 December 2018

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**3.1.2 First time application of IFRS 9 “Financial instruments”**

**First time application of IFRS 9**

IFRS 9 replaces IAS 39, defining a new set of rules for measuring and classifying financial assets and liabilities, establishing a new methodology for the credit impairment of financial assets and for determining loss allowances for loan and guarantee commitments, and introducing changes in the treatment of hedging transactions, with the exception of macro-hedging transactions which will be covered by a separate standard currently under review by the IASB. As from 1 January 2018, the Company applies IFRS 9 as adopted by the European Union. The Company did not early apply the provisions of IFRS 9 to previous reporting periods. Consequently, the accounting principles applicable to financial instruments have been amended and the disclosures presented in the notes have been supplemented, in accordance with the amendments to IFRS 7 at the time IFRS 9 was adopted.

The impairment as of 1 January 2018 (First Time Application) amounts to KEUR 2 and has been recorded directly in Equity (deduction of reserves).

As a result of the application of IFRS 9, the Fully Funded Swaps have been reclassified to financial assets mandatorily measured at Fair Value through Profit and Loss (“FVTPL”) as these instruments are debt instruments that do not pass de SPPI test.

## Notes to the financial statements

As at 31 December 2018

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	Value adjustments				
	BALANCE AS AT 31.12.2017	Reclassification impact	Credit risk adjustments	Impact on deferred tax	Balance as at 01.01.2018
	IAS 39				IFRS 9
<i>EUR '000</i>					
Cash and cash equivalents	114 889	-	-	-	114 889
<b>Financial assets at fair value through profit or loss</b>					
- Mandatorily at fair value through profit or loss	-	44 051 537	-	-	44 051 537
- Designated at fair value through profit or loss	44 051 537	- 44 051 537	-	-	-
- Trading derivatives	3 806 822	-	-	-	3 806 822
Loans and receivables	53 661	-	(3)	-	53 658
<b>Total assets</b>	<b>48 026 909</b>	<b>-</b>	<b>(3)</b>	<b>-</b>	<b>48 026 906</b>
Financial liabilities at amortised cost	110 734	-	-	-	110 734
<b>Financial liabilities at fair value through profit or loss</b>					
- Designated at fair value through profit or loss	44 048 143	-	-	-	44 048 143
- Classified as Trading derivatives	3 818 679	-	-	-	3 818 679
Other liabilities	43 668	-	-	-	43 668
Tax liabilities	27	-	-	(1)	26
<b>Total liabilities</b>	<b>48 021 251</b>	<b>-</b>	<b>-</b>	<b>(1)</b>	<b>48 021 250</b>
Share capital	2 000	-	-	-	2 000
Legal reserve	200	-	-	-	200
Other reserves	3 380	-	(3)	1	3 378
Profit for the financial year	78	-	-	-	78
<b>Total equity</b>	<b>5 658</b>	<b>-</b>	<b>(3)</b>	<b>1</b>	<b>5 656</b>

## Notes to the financial statements

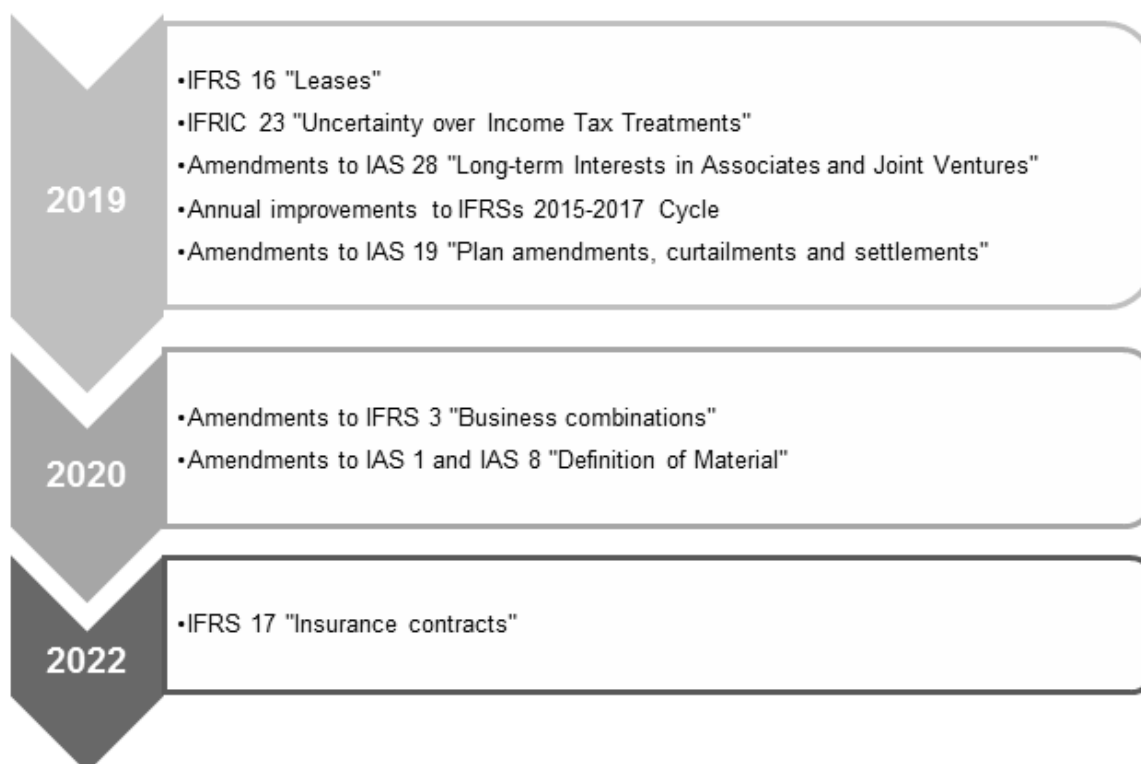
As at 31 December 2018

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### 3.1.3 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 2018. They are required to be applied from annual periods beginning on 1 January 2019 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 2018.

These standards are expected to be applied according to the following schedule:



#### 3.1.3.1 IFRS 16 "Leases"

This new standard will supersede the existing standard, IAS 17 and modify accounting requirements for leases, and more specifically in relation to the lessees' financial statements, with very few impacts for the lessors.

For all lease agreements, lessee will be required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. In its statement of profit and loss, the lessee will separately recognise the depreciation of the right-of-use assets and the interest expense on lease liabilities.

The Company expects no material effect from this standard.



## **Notes to the financial statements**

As at 31 December 2018

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### **3.1.3.2 IFRIC 23 “Uncertainty over Income Tax Treatments”**

*Issued by IASB on 7 June 2017*

*Adopted by the European Union on 23 October 2018*

This interpretation provides clarifications about the measurement and accounting treatment of income tax when there is uncertainty over income tax treatments. The approach to be used should be the one that provides the best predictions of the resolution of the uncertainty.

The process for identifying, analysing and monitoring tax uncertainties has been reviewed. The Company expects no material effect of this interpretation on equity.

### **3.1.3.3 Amendments to IAS 28 “Long-Term Interests in associates and joint ventures”**

*Issued by IASB on 12 October 2017*

The amendments clarify that IFRS 9 “Financial Instruments” shall be applied to financial instruments that form part of the net investment in an associate or a joint venture but to which the equity method is not applied.

The Company does not expect any material impact from these amendments.

### **3.1.3.4 Annual improvements (2015-2017)**

*Issued by IASB on 12 December 2017*

As part of the annual Improvements to International Financial Reporting Standards, the IASB has issued amendments to IFRS 3 “Business Combinations”, IFRS 11 “Joint Arrangements”, IAS 12 “Income Taxes” and IAS 23 “Borrowing Costs”.

The Company does not expect any material impact from these amendments.

### **3.1.3.5 Amendments to IAS 19 “Plan Amendments, Curtailment or Settlement”**

*Published by IASB on 7 February 2018*

These amendments clarify how pension expenses are determined in the event of amendment, curtailment or settlement of defined benefit pension plans. In these cases, IAS 19 currently calls for the net cost of the defined benefit asset or liability to be remeasured.

The amendments require the entity to use the updated assumptions from this remeasurement to determine past service cost and net interest.

The Company does not expect any material impact from these amendments.

### **3.1.3.6 Amendments to IFRS 3 “Business Combinations”**

*Published by the IASB on 22 October 2018*

The amendments are intended to provide clearer application guidance to make it easier to differentiate between the acquisition of a business and the acquisition of a group of assets, whose accounting treatment is different.

The Company does not expect any material impact from these amendments.

### **3.1.3.7 Amendments to IAS 1 and IAS 8 “Definition of Material”**

*Published by the IASB on 31 October 2018*

These amendments are intended to clarify the definition of ‘material’ in order to facilitate the exercise of judgement by the preparers of financial statements, particularly when selecting the information to be presented in the Notes.

## Notes to the financial statements

As at 31 December 2018

– continued –

### 3.1.3.8 IFRS 17 “Insurance Contracts”

*Issued by IASB on 18 May 2017*

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 will be replaced by a current value measurement of insurance contracts.

The Company expects no material effect from this standard.

### 3.2 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 comprehensive income in the caption Net gains on 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
<b>31.12.2018</b>	1.1450	125.8500	0.8945	8.9675	1.1269
<b>31.12.2017</b>	1.1993	135.0100	0.8872	9.3720	1.1702

### 3.3 Cash and cash equivalents

Cash and cash equivalents comprise only cash repayable on demand.

Notes to the financial statements

As at 31 December 2018

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### 3.4 Financial instruments

The financial instruments represent the contractual rights or obligations to receive or to pay cash or other financial assets.

In the financial statements, the classification and valuation of financial assets and liabilities depend on their contractual characteristics and the way the entity manages those financial instruments.

However, this distinction is not applicable to derivative instruments, which are always measured at fair value in the statement of financial position, no matter what their purpose is (market activities or hedging transactions).

#### 3.4.1 Accounting principles applied up to 31 December 2017 to financial instruments

The accounting principles presented hereafter are those applied to financial instruments up to 31 December 2017 in accordance with IAS 39.

##### 3.4.1.1 Classification of financial instruments

When initially recognized, financial instruments are presented in the statement of financial position under categories that determine their accounting treatment and their subsequent valuation method. This classification depends on the type of financial instrument and the purpose of the transaction.

Financial assets are classified into one of the following two categories:

- Financial assets at fair value through profit or loss: these are financial assets held for trading purposes, which by default include derivative financial assets not qualifying as hedging instruments and non-derivative financial assets designated by the Company upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option;
- Loans and receivables: these include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading purposes, not held for sale from the time they are originated or acquired, and not designated upon initial recognition to be carried at fair value through profit or loss (in accordance with the fair value option). They are measured at amortised cost, and impairment, determined on an individual or a collective basis, may be recorded if appropriate;

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;
- Financial liabilities at amortised cost: these include the other non-derivative financial liabilities and are measured at amortized cost.

## **Notes to the financial statements**

As at 31 December 2018

– continued –

### **3.4.1.2 Reclassification of financial assets**

After their initial recognition, financial assets may not be later reclassified as Financial assets at fair value through profit or loss.

Financial derivatives and financial assets measured using the fair value option may not be reclassified out of Financial assets at fair value through profit or loss.

These reclassified financial assets are transferred to their new category at their fair value at the date of reclassification and are subsequently measured according to the rules that apply to the new category.

### **3.4.1.3 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. The valuation methods used by the Company to establish the fair value of financial instruments are detailed in Note 3.4.2.5.

### **3.4.1.4 Initial recognition**

Purchases and sales of financial assets recorded under Financial assets at fair value through profit or loss 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 statement of profit and loss. Loans and receivables are recorded in the statement of financial position on the date they are paid or at the maturity date for invoiced services.

When initially recognised, financial assets and liabilities are measured at fair value including transaction costs directly attributable to their acquisition or their issuance, except for financial instruments recognised at fair value through profit or loss, for which these costs are booked directly to the statement of profit and loss.

### **3.4.1.5 Offsetting a financial assets and a financial liability**

First time application of IFRS 9 did not change the accounting principles applicable to offsetting of financial instruments. Those principles are presented in Note 3.4.2.9.

### **3.4.1.6 Derecognition of financial assets and liabilities**

The Company derecognises all or part of a financial asset (or group of similar assets) when the contractual rights to the cash flows on the asset expire or when the Company has transferred the contractual rights to receive the cash flows and substantially all of the risks and rewards linked to ownership of the asset.

The Company also derecognises financial assets over which it has retained the contractual rights to the associated cash flows but is contractually obligated to pass these same cash flows through to a third party (“pass-through agreement”) and for which it has transferred substantially all the risks and rewards.

Where the Company has transferred the cash flows of a financial asset but has neither transferred nor retained substantially all the risks and rewards of its ownership and has effectively not retained control of the financial asset, the Company derecognises it and, where necessary, recognises a separate asset or liability to cover any rights and obligations created or retained as a result of the asset’s transfer. If the Company has retained control of the asset, it continues to recognise it in the statement of financial position to the extent of its continuing involvement in that asset.

## **Notes to the financial statements**

As at 31 December 2018

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When a financial asset is derecognised in its entirety, a gain or loss on disposal is recorded in the statement of profit and loss for an amount equal to the difference between the carrying value of the asset and the payment received for it, adjusted where necessary for any unrealised profit or loss previously recognised directly in equity and for the value of any servicing asset or servicing liability. Indemnities billed to borrowers following the prepayment of their loan are recorded in the statement of profit and loss on the prepayment date among Interest and similar income.

The Company only derecognises all or part of a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.

A financial liability may also be derecognised in the event of a substantial amendment to its contractual conditions or where an exchange is made with the lender for an instrument whose contractual conditions are substantially different.

### **3.4.1.7 Derivative financial instruments**

First time application of IFRS 9 did not change the accounting principles applicable to derivative financial instruments. Those principles are presented in Note 3.4.2.4.2.

### **3.4.1.8 Financial assets and liabilities at fair value through profit or loss**

These are financial assets held for trading purposes, which by default include derivative financial assets not qualifying as hedging instruments and non-derivative financial assets designated by the Company upon initial recognition to be carried at fair value through profit or loss in accordance with the fair value option.

In addition to financial assets and liabilities held for trading purposes, the item Financial assets and liabilities at fair value through profit or loss also include non-derivative financial assets and 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. Changes in the fair value of these items are recognised through profit or loss under Net gains and losses on financial instruments at fair value through profit or loss.

This option is only applied in the following cases:

- when it eliminates or significantly reduces discrepancies in the accounting treatment of certain financial assets and liabilities;
- when it applies to a hybrid instrument containing one or more embedded derivatives that would otherwise be subject to a separate recognition;
- when a group of financial assets and/or liabilities is managed and its performance is measured on a fair value basis.

### **3.4.1.9 Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market.

Subsequent to initial measurement, loans and receivables are measured at amortized cost using the effective interest rate method, less appropriate impairments. Impairments represent the Company's estimate of losses arising from the failure or inability of third parties to make payments when due.

**Notes to the financial statements**

As at 31 December 2018

– continued –

**3.4.1.10 Financial liabilities at amortised cost**

The first time application of IFRS 9 did not change the accounting principles applicable to financial liabilities at amortised cost. Those principles are presented in Note 3.4.2.7.

**3.4.1.11 Recognition of interest income and expense**

Interest income and expense are recognized in the statement of profit and loss under Interest and similar income and Interest and similar expense for all financial instruments measured at amortized cost using the effective interest rate method (loans and receivables, debts, held-to-maturity financial assets).

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.

When a financial asset or group of similar financial assets has been impaired following an impairment of value, subsequent interest income is recorded on the basis of the effective interest rate used to discount the future cash flows when measuring the loss of value.

**3.4.1.12 Impairments**

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not be considered otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a Security. In addition for an investment in an equity security, a significant or prolonged decline in its value below its cost is objective evidence of impairment.

The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognized through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the statement of comprehensive income.

**Notes to the financial statements**

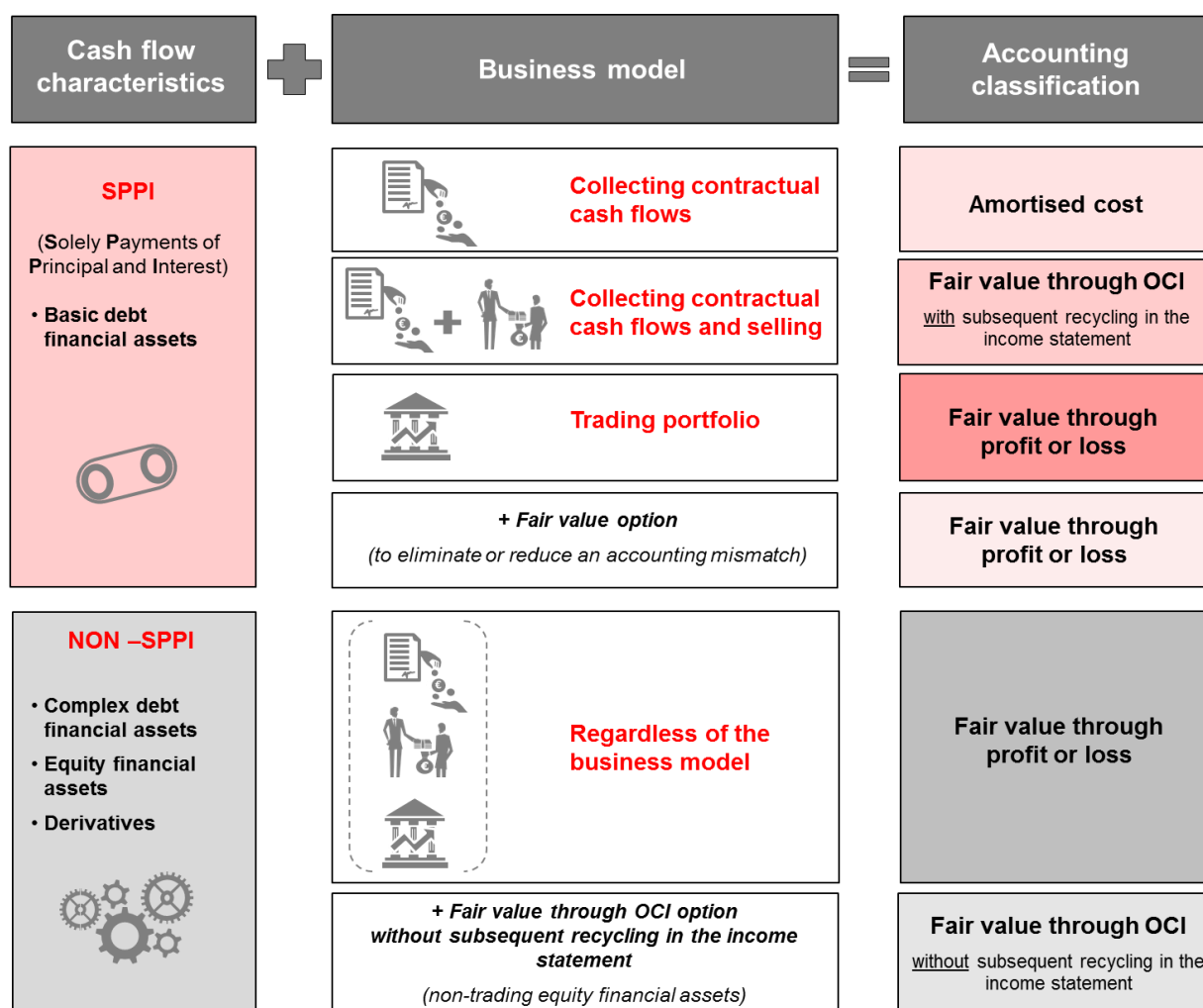
As at 31 December 2018

– continued –

**3.4.2 Classification and measurement of financial instruments under IFRS 9 (from 1 January 2018)**

At initial recognition, financial instruments are classified in the Company statement of financial position in one of three categories (amortised cost, fair value through profit or loss, and fair value through other comprehensive income) that determine their accounting treatment and subsequent measurement method. Classification is based on their contractual cash flow characteristics and the entity's business model for managing the assets.

The diagram overleaf depicts how financial assets are classified under IFRS 9 depending on the cash flow characteristics and the business model.



The accounting principles for classifying financial assets require the entity to analyse the contractual cash flows generated by the financial instruments and to analyse the business model for managing the financial instruments.

**Notes to the financial statements**

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**3.4.2.1 Classification of financial instruments**

**3.4.2.1.1 Analysis of contractual cash flow characteristics**

The aim of the analysis of contractual cash flow characteristics is to limit the option of recognising revenues from financial assets using the effective interest method exclusively to instruments whose characteristics are similar to those of a basic lending arrangement, meaning their associated cash flows are highly predictable. All other financial instruments that do not share these characteristics are measured at fair value through profit or loss, regardless of the business model used to manage them.

Contractual inflows that represent solely payments of principal and interest (SPPI) are consistent with a basic lending arrangement.

In a basic lending arrangement, interest predominantly consists of a consideration for the time value of money and for credit risk. Interest may also include a consideration for liquidity risk, administrative costs, and a commercial profit margin. Negative interest rate is not inconsistent with this definition.

All financial assets that are not basic are mandatorily measured at fair value through profit or loss, regardless of the business model for managing them.

**3.4.2.1.2 Analysis of the business model characteristics**

The business model represents how the financial instruments are managed in order to generate cash flows and income.

The Company uses several business models in the course of exercising its different business lines. Business models are assessed on how groups of financial instruments are managed together to achieve a particular business objective. The business model is not assessed on an instrument-by-instrument basis, but at a portfolio level, considering relevant evidence such as:

- how the performance of the portfolio is evaluated and reported to the Company's management;
- how risks related to financial instruments within that business model are managed;
- how managers of the business are compensated;
- and also, sales of assets realised or expected (size, frequency, purpose).

To determine the classification and measurement of financial assets, three different business models shall be distinguished:

- a business model whose objective is to collect contractual cash flows ("Collect" business model);
- a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets ("Collect and Sell" business model);
- and a separate business model for other financial assets, and especially those that are held for trading purposes, where collecting contractual cash flows is only incidental.



## Notes to the financial statements

As at 31 December 2018

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### 3.4.2.1.2.1 Business model “Collecting Contractual Cash flow” (Hold to collect “HTC”)

Under this model, financial assets are managed to realise cash flows by collecting contractual payments over the life of the instrument.

To achieve the objective of this business model, it is not necessary for the entity to hold all the instruments until maturity. Selling assets remains consistent with a business model whose objective is to collect contractual cash flows in the following cases:

- the financial asset is sold following an increase in the asset’s credit risk; or
- the sale of the financial asset occurs close to its maturity and the proceeds from the sale are similar to the amount to be collected from the remaining contractual cash flows.

Other sales can be consistent with the objective of collecting contractual cash flows, as well, provided they are infrequent (even if significant in value) or insignificant in value, both individually and in aggregate terms (even if frequent). Such other sales include sales made to manage credit concentration risk (without an increase in the asset’s credit risk). The Company has set up procedures for reporting and analysing all significant projected sales of financial assets held for collecting contractual cash flows, as well as a periodic review of sales that have occurred.

### 3.4.2.1.2.2 Business model “Collecting Contractual Cash flow and sale” (Hold to collect and sell “HTCS”)

The objective of this business model is to realise cash flows by both collecting contractual payments and selling financial assets. In this type of business model, the sales of financial assets are not incidental or exceptional, but they are integral to achieving the business’ objectives. This business model is not used by the Company.

### 3.4.2.1.2.3 Business model “Trading activities”

The trading book contains financial assets and liabilities held or accrued for the purpose of capital markets activities.

By default, derivative financial instruments are classified into the trading portfolio, unless they qualify as hedging instruments (see Note 3.4.2.4.2).

The financial instruments recorded in the trading portfolio are measured at fair value at the statement of financial position date and recognised in the statement of financial position under Financial assets or liabilities at fair value through profit or loss. Changes in their fair value and revenues associated to those instruments are recorded in the statement of profit and loss as Net gains and losses on financial instruments at fair value through profit or loss.

Financial assets held for trading are:

- acquired with the intention of selling them in the short term; or
- held for market-making purposes; or
- acquired for the purposes of the specialised management of a trading portfolio, including derivative financial instruments, securities or other financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.

## Notes to the financial statements

As at 31 December 2018

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### 3.4.2.1.2.4 Application to the Company

The portfolios of financial assets were reviewed to determine, based on the characteristics of their contractual cash flows and on how they are managed (business models), their accounting treatment under IFRS 9. Another objective of this review was to identify the most significant impacts on the information systems.

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 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 SPPI test and 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.

### 3.4.2.1.3 Fair value option

A non-SPPI financial asset that is not held for trading purposes can be designated, at initial recognition, at fair value through profit or loss if such designation eliminates or significantly reduces discrepancies in the accounting treatment of certain financial assets and liabilities (accounting mismatch). As at 31 December 2018, no financial assets are designated at fair value through profit or loss.

### 3.4.2.1.4 Reclassification of financial assets

Reclassification of financial assets is only required in the exceptional event that the Company changes the business model used to manage these assets. For the year ending 31 December 2018, no reclassification of financial assets occurred.

### 3.4.2.1.5 Classification of financial liabilities

Financial liabilities are classified into one of the following two categories:

- Debts: these include the other non-derivative financial liabilities and are measured at amortised cost.
- 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.

Notes to the financial statements

As at 31 December 2018

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3.4.2.2 Measurement of financial instruments

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. The valuation methods used by the Company to establish the fair value of financial instruments are detailed in Note 3.4.2.5.

3.4.2.2.1 Initial recognition

Financial assets are recognised on statement of financial position:

- At the settlement/delivery date for securities;
- At the trade date for derivatives;
- At the disbursement date for loans.

For instruments measured at fair value, when initially recognised, financial assets and liabilities are measured at fair value including transaction costs directly attributable to their acquisition or their issuance, except for financial instruments recognised at fair value through profit or loss, for which these costs are booked directly to the statement of profit and loss.

3.4.2.2.2 Measurement

For instruments measured at fair value, changes in fair value between the trade date and the settlement-delivery date are recorded under profit or loss or under other comprehensive income, depending on the accounting classification of the financial assets in question. The trade date is the date on which the contractual commitment becomes binding and irrevocable for the Company.

3.4.2.2.3 Derecognition

The Company derecognises all or part of a financial asset (or group of similar assets) when the contractual rights to the cash flows on the asset expire or when the Company has transferred the contractual rights to receive the cash flows and substantially all of the risks and rewards linked to ownership of the asset.

The Company also derecognises financial assets over which it has retained the contractual rights to the associated cash flows but is contractually obligated to pass these same cash flows through to a third party ("pass-through agreement") and for which it has transferred substantially all the risks and rewards.

Where the Company has transferred the cash flows of a financial asset but has neither transferred nor retained substantially all the risks and rewards of its ownership and has effectively not retained control of the financial asset, the Company derecognises it and, where necessary, recognises a separate asset or liability to cover any rights and obligations created or retained as a result of the asset's transfer. If the Company has retained control of the asset, it continues to recognise it in the statement of financial position to the extent of its continuing involvement in that asset.

When a financial asset is derecognised in its entirety, a gain or loss on disposal is recorded in the statement of profit and loss for an amount equal to the difference between the carrying value of the asset and the payment received for it, adjusted where necessary for any unrealised profit or loss previously recognised directly in equity and for the value of any servicing asset or servicing liability. Indemnities billed to borrowers following the prepayment of their loan are recorded in the statement of profit and loss on the prepayment date among Interest and similar income.

Notes to the financial statements

As at 31 December 2018

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The Company only derecognises all or part of a financial liability when it is extinguished, i.e. when the obligation specified in the contract is discharged, cancelled or expired.

A financial liability may also be derecognized in the event of a substantial amendment to its contractual conditions or where an exchange is made with the lender for an instrument whose contractual conditions are substantially different.

3.4.2.3 Financial assets and liabilities at fair value through profit or loss

3.4.2.3.1 Trading portfolio

The financial instruments recorded in the trading portfolio are measured at fair value at the statement of financial position date and recognised in the statement of financial position under Financial assets or liabilities at fair value through profit or loss. Changes in their fair value and revenues associated to those instruments are recorded in the statement of profit and loss as Net gains and losses on financial instruments at fair value through profit or loss.

The trading portfolio includes all the financial assets held for trading purposes regardless of the characteristics of their contractual cash flows. Only non-SPPI financial assets that are not held for trading are classified amongst Financial assets measured mandatorily at fair value through profit or loss (see section 3.4.2.4.2 below).

3.4.2.3.2 Financial instruments mandatorily at fair value through profit or loss

Financial assets measured mandatorily at fair value through profit or loss include financial instruments that are not held for trading purposes and do not pass the SPPI test (non-basic or non-SPPI instruments).

These assets are recorded at fair value in the statement of financial position under Financial assets at fair value through profit or loss and changes in the fair value of these instruments are recorded in the statement of profit and loss under Net gains or losses on financial instruments at fair value through profit or loss.

3.4.2.3.3 Financial instruments designated at fair value through profit or loss (fair value option)

For financial assets, this option may only be taken to eliminate or significantly reduce accounting mismatches that would otherwise arise from applying different accounting treatments to certain financial assets and liabilities.

For financial liabilities, this option may only be taken in the following cases:

- to eliminate or reduce discrepancies in the accounting treatment of certain financial assets and liabilities;
- when it applies to a hybrid financial instrument with one or more embedded derivatives, which should be recognised separately;
- when a group of financial assets and/or liabilities is managed together and its performance is measured at fair value.

The Company has designated at fair value through profit or loss the Notes issued because mirror transactions (Fully Funded Swaps or "FFS") that have used to hedge Notes issued are measured mandatorily at fair value through profit and loss.

Changes in the fair value of these instruments (including interest) are recorded in the statement of profit and loss under Net gains or losses on financial instruments at fair value through profit or loss. The Company does not record the share of the changes in fair value that is due to changes in the Company's own credit risk as this would create an accounting mismatch with the mirrored assets.

Notes to the financial statements

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The Company issues both secured and unsecured Notes. The Notes are subscribed by the investors through Société Générale Group as a lead manager during the issuance period and as a market maker for a secondary market.

Fully Funded Swaps are financial instruments contracted with Société Générale Group to hedge the Company's exposure to market risk arising from its activities, by replicating each of the Notes issued.

The Company provides the funds received from Note holders to the swap counterparty (Société Générale Group). The swap counterparty agrees to exchange the reimbursement amount, including the return, of the issued Notes.

These financial assets and liabilities are measured at fair value through profit or loss and are recognised in the statement of financial position under "Financial assets/Financial liabilities at fair value through profit or loss".

The impact of the application of IFRS 13 on the Company's financial information (Credit Value Adjustment (CVA) / Debt Value Adjustment (DVA) recognition) have been recorded on a net basis in the statement of financial position, i.e. there is no impact in terms of cash or income (except the margin – Bid/Ask – between the sale of the Note and the purchase of the Fully Funded Swap).

Furthermore, in case of derecognition of a financial liability at fair value through profit or loss using the fair value option before its contractual maturity, gains and losses, if any, related to the Company's own credit risk are booked under Unrealised or deferred gains and losses and then reclassified under Retained earnings at the beginning of the subsequent financial year.

#### 3.4.2.4 Financial derivatives

Derivative instruments are financial instruments for which the value changes according to that of an underlying item and can be accompanied by a leverage effect. The items underlying these instruments are various (interest rates, exchange rates, equity, indexes, commodities, credit rating...), as are their forms (forward contracts, swaps, calls and puts...).

The Company may use these derivative instruments for their market activities to provide to its customers solutions to meet their risk management or revenue optimisation needs. In that case, they are accounted for as trading derivatives.

Derivatives instruments may also be used to manage and hedge its own risks. In which case, they are qualified as hedging derivatives. Hedging transactions can concern individual items or transactions (micro-hedging relationships) or portfolios of financial assets and liabilities that can generate a structural interest-rate risk (macro-hedging relationships). The Company does not use derivatives instruments for hedging purposes.

Contrary to other financial instruments, derivative instruments are always measured at fair value in the statement of financial position, regardless their purpose. The fair value adjustments of trading derivatives are directly recognised in the statement of profit and loss.

## Notes to the financial statements

As at 31 December 2018

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Derivatives are financial instruments meeting the following three criteria:

- their value changes in response to the change in a specified interest rate, foreign exchange rate, share price, index of prices, commodity price, credit rating, etc.;
- they require little to no initial investment;
- they are settled at a future date.

All financial derivatives are recognised at fair value in the statement of financial position as financial assets or financial liabilities. They are considered to be trading derivatives by default.

### 3.4.2.4.1 Embedded derivatives

An embedded derivative is a component of a hybrid contract that also includes a non-derivative host instrument.

Where the host contract is a financial asset, the entire hybrid contract is measured at fair value through profit or loss because its contractual cash flows do not pass the SPPI test.

Where the host contract is a financial liability and is not measured at fair value through profit or loss, the embedded derivative is separated from the host contract if:

- at acquisition, the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host and
- a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative.

Once separated, the derivative is recognised at fair value in the statement of financial position under *Financial assets* or *Financial liabilities at fair value through profit or loss* under the aforementioned conditions. The host contract is classified as a financial liability and measured in accordance with its accounting category.

### 3.4.2.4.2 Trading derivatives

Trading derivatives are recorded in the statement of financial position under Financial assets or liabilities at fair value through profit or loss. Changes in fair value are recorded in the statement of profit and loss under Net gains and losses on financial instruments at fair value through profit or loss.

These assets and liabilities respectively include:

- Options purchased in order to hedge the issued warrants;
- Warrants issued by the Company.

The notional amounts of the Warrants issued together with the hedging options purchased are reported Off Balance-Sheet.

The Company reports the premium paid on the derivatives bought and the premium received on the derivatives sold in the statement of financial position under “Financial assets or liabilities at fair value through profit or loss - Held for Trading”.

Subsequent to initial measurement, the Options and the Warrants are measured at fair value through profit or loss.

## **Notes to the financial statements**

As at 31 December 2018

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### **3.4.2.5 Fair value of Financial instruments measured at fair value**

The financial assets and liabilities recognised in the Company statement of financial position are measured either at fair value or at amortised cost. In the latter case, the fair value of the instruments is disclosed in the notes (see Note 3.4.2.5.1).

If an instrument is quoted on an active market, its fair value is equal to its market price.

But many financial instruments are not listed or are only negotiable on illiquid markets or over-the-counter markets (which is the case for many derivative instruments).

In such situations, the fair value of the instruments is calculated using measurement techniques or valuation models. Market parameters are included in these models and must be observable; otherwise they are determined based on internal estimates. The models and parameters used are subject to independent validations and internal controls.

#### **3.4.2.5.1 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.

#### **3.4.2.5.2 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.

## Notes to the financial statements

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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);



## Notes to the financial statements

As at 31 December 2018

– continued –

- 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).

For the years ended 2018 and 2017, the impact of IFRS 13 is fully embedded in the valuation models.

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 applied to SGIS (the same as the SG Group) is the yield discounting methodology.

The fair values of financial instruments include accrued interest as applicable.

### - For unsecured Notes

The fair value for both the Unsecured Notes (liabilities) and the Fully Funded Swap (FFS) (assets) are 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 (SG) Group’s credit spread curve. A dedicated process has been implemented using SG 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 (BNY Mellon) 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 SG 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 SG and SGIS are mere risk pass-through, the credit risk premium (external bonds issuers) shall not be adjusted with SG 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

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.

## Notes to the financial statements

As at 31 December 2018

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### 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.

#### 3.4.2.6 Loans and receivables at amortised cost

Loans and receivables are measured at amortised cost where their contractual cash flows are consistent with basic lending arrangements (SPPI) and they are managed under a “Hold to Collect” business model.

Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, and their accrued or earned income is recorded in the statement of profit and loss under Interest and similar income. Furthermore, as these financial assets are subject to impairment for credit risk, changes in expected credit losses are recorded in profit or loss under *Impairments or Reversal of impairments* with a corresponding impairment of amortised cost under statement of financial position assets. The applicable impairment rules are described in Note 3.4.2.8.1.

#### 3.4.2.7 Debt at amortised cost

Financial liabilities at amortised cost include non-derivative instruments that are not measured at fair value through profit or loss.

Debts are initially recognised at cost, measured as the fair value of the amount borrowed net of transaction fees. These liabilities are measured at period-end and at amortised cost using the effective interest rate method. As a result, issue or redemption premiums on bonds are amortised over the lifetime of the instruments concerned. Accrued or paid expenses are recorded in profit or loss under *Interest and similar expense*.

The Company recognizes in this caption overdrafts and the convertible bonds with profit participation feature which displays the following future cashflows:

- One fixed rate coupon
- One profit based coupon

#### 3.4.2.8 Impairment 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 together with interest income. 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.

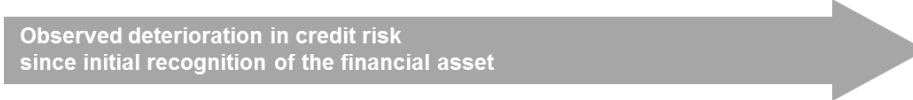
**Notes to the financial statements**

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**3.4.2.8.1 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:

Observed deterioration in credit risk since initial recognition of the financial asset 			
<b>Credit risk category</b>	<b>Stage 1</b> Performing assets	<b>Stage 2</b> Under-performing or downgraded assets	<b>Stage 3</b> Credit-impaired or defaulted assets
<b>Transfer criteria</b>	Initial recognition of the instrument in stage 1 ⇒ <i>Maintained if the credit risk has not increased significantly</i>	Credit risk on the instrument has increased significantly since initial recognition / 30 days past due	Evidence that the instrument has become credit-impaired / 90 days past due
<b>Measurement of credit risk</b>	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses
<b>Interest income recognition basis</b>	Gross carrying amount of the asset before impairment	Gross carrying amount of the asset before impairment	Net carrying amount of the asset after impairment

**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.

**Exposures classified in Stage 2**

To identify Stage 2 exposures, the significant increase in credit risk is assessed by the Company using all available past and forward-looking data (behavioral scores, loan to value indicators, macroeconomic forecast scenarios, etc.). This assessment of changes in credit risk takes account of the following three criteria's:

- *The counterparty's credit rating*

The Company analyses changes in the counterparty's credit rating, as well as any changes in its operating sector, in macroeconomic conditions and in the behaviors of the counterparty that may, above and beyond the review of the credit rating, be a sign of deteriorating credit risk.

If, after a review, a counterparty is deemed "sensitive" (notion of watch list), all contracts between the Company and this counterparty are transferred into Stage 2 and the related impairment and provisions are increased up to the lifetime expected credit losses. Once a counterparty has been placed on a watch list, all new transactions originated with that counterparty are recorded in Stage 2.

- *The magnitude of the change in a counterparty's credit rating*

This magnitude is assessed from contract to contract, from the date of their initial recognition to the statement of financial position date.

To determine whether a deterioration or improvement in the credit rating between the date of initial recognition and the statement of financial position date is significant enough to prompt a change in the impairment Stage,

## Notes to the financial statements

As at 31 December 2018

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thresholds are set once a year by the Risk Division. These transfer thresholds between Stage 1 and Stage 2 are determined for each homogenous portfolio of contracts (notion of risk segment) and are calculated based on the probability-of-default curves for each. The thresholds are therefore differentiated based on the one-year probability of default curves; this assumes there is no distortion with respect to any comparison made with the lifetime probability-of-default curves.

### - *The existence of payments more than 30 days past due*

There is a rebuttable presumption of a significant deterioration in credit risk when a payment on an asset is more than 30 days past due.

Once any one of these three criteria is met, the instrument is transferred from Stage 1 to Stage 2, and the related impairments or provisions are adjusted accordingly.

The first two criteria are symmetrical: a sufficient improvement in the credit rating, or removal from the watch list of sensitive counterparties, results in a return to Stage 1.

### Exposures classified in Stage 3

To identify Stage 3 exposures (doubtful outstandings), the Company determines whether or not there is objective evidence of impairment (default event):

- a significant deterioration in the counterparty's financial situation creates a strong probability that it will not be able to meet all of its commitments and thus represents a risk of loss for the Company;
- concessions are granted to the clauses of the loan agreement, in light of the borrower's financial difficulties, that would not have been granted in other circumstances;
- payments more than 90 days past due (with the exception of restructured loans during the probation period, which are deemed subject to impairment as of the first missed payment), whether or not a collection procedure is instigated;
- or, even in the absence of missed payments, the existence of probable credit risk or litigious proceedings (bankruptcy, court-ordered settlement or compulsory liquidation).

The Company applies the impairment contagion principle to all of the defaulting counterparty's exposures. When a debtor belongs to a group, the impairment contagion principle may also be applied to all of the group's exposures.

In the case of a return to Stage 2, the contracts are kept in Stage 2 from six months to two years according to the nature of the risk portfolio to which they belong.

### Measurement of depreciation and provision

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. Accordingly, the amount of impairment is the difference between the gross carrying amount of the asset and the present value of future cash flows deemed to be recoverable, taking into account the impact of collateral called up or liable to be called up and the probability of a default event occurring within the next 12 months.

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. Accordingly, the amount of impairment is the difference between the gross carrying amount of the asset and the present value of future cash flows deemed to be recoverable, taking into account the impact of collateral called up or liable to be called up and the probability of a default event occurring through to the instrument's maturity.

## Notes to the financial statements

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Irrespective of the Stage in which the exposures are classified, cash flows are discounted using the initial effective interest rate of the financial asset. The amount of impairment is included in the net carrying amount of the credit impaired financial asset. Impairment allocations/reversals are recorded in profit or loss under Cost of risk.

### 3.4.2.8.2 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.

### 3.4.2.9 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. In this respect, the Company recognises in its statement of financial position the net amount of derivative financial instruments traded with certain clearing houses where they achieve net settlement through a daily cash margining process, or where their gross settlement system has features that eliminate or result in insignificant credit and liquidity risk, and that process receivables and payables in a single settlement process or cycle.

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 Société Générale.

In December 2014, the Company added a new cash netting clause in the legal framework with Société Générale. Personne Morale and 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 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 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:

(a) currently has a legally enforceable right to set off the recognized amounts; and

(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.”

As at 31 December 2018, the impact of the offsetting (decrease in the balance sheet) is KEUR 40 786 626 for the non-sold Notes and the corresponding Fully Funded Swaps (31 December 2017: KEUR 23 631 494) and KEUR 5 281 042 for the non-sold Warrants and the corresponding Options (31 December 2017: KEUR 6 945 467) (see Note 5 and Note 9).

## 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).

## **Notes to the financial statements**

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The statement “Changes in Shareholders’ Equity” presents the various changes that affect the components of equity over the reporting period.

### **3.6 Interest income and expenses**

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) and for all financial instruments mandatorily measured at fair value through profit and loss on the amount of the income and expenses representative of the effective interest rate.

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.

### **3.7 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 15.

### **3.8 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.

#### **3.8.1 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.

## Notes to the financial statements

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### 3.8.2 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. Deferred tax assets and liabilities are measured considering rules established by Luxembourg tax authority.

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.

Deferred tax assets can result from deductible temporary differences or from tax loss carry forwards. These deferred tax assets are recorded only if the entity concerned is likely to recover these assets within a set time. Temporary differences or tax loss carry forwards can also be used against future taxable profit. Tax loss carry forward review taking into account the tax system applicable and a realistic projection of tax income or expense, based on their business development outlook: any previously unrecognized deferred tax assets are recorded in the statement of financial position to the extent it has become probable that future taxable profit will allow the deferred tax asset to be recovered; however, the carrying value of deferred tax assets already recognized in the statement of financial position is reduced where a risk of total or partial non-recovery occurs.

Deferred tax were adjusted further to the fiscal law reform on December 2016. The rate of deferred tax applied as of 31 December 2018 is 26.01%, which has not changed since 31 December 2017. The deferred tax rate includes the corporate tax and the municipal tax.

### 3.9 Other commitments linked to secured notes

In relation to each Series 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 The BNY Mellon (Luxembourg) S.A. (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:

- (i) in the case of English Law Notes, BNY 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,
- (ii) in the case of French Law Notes, directly in favour of the relevant Noteholders and the other relevant Secured Parties as represented by BNY 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 Collateral Business Days following the occurrence of a Secured Note Acceleration Event,

**Notes to the financial statements**

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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, the securities borrowed are not recognized in the 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.

**4. Cash and cash equivalents**

Cash and cash equivalents amount to KEUR 79 584 as at 31 December 2018 (31 December 2017: KEUR 114 889) and are mainly composed of cash held with Société Générale Bank & Trust S.A. and Société Générale S.A..

As at 31 December 2018 and 2017, this caption only contains cash that is repayable on demand.

**5. Financial assets at fair value through profit or loss**

	<b>31.12.2018</b>	<b>31.12.2017</b>
	EUR' 000	EUR' 000
<b>Financial assets at fair value through profit or loss</b>		
- Designated at fair value through profit or loss		44 051 537
- Mandatorily at fair value through profit or loss (Fully Funded Swaps)	45 062 134	
- Trading derivatives (Options)	4 168 362	3 806 822
<b>Total</b>	<b>49 230 496</b>	<b>47 858 359</b>

As at 31 December 2018, financial assets mandatorily at fair value through profit or loss (Fully Funded Swaps) amount to KEUR 45 062 134 (31 December 2017: KEUR 0) and replicate all the Notes issued by the Company (see Note 3.2 and Note 8). These FFS amounted to KEUR 44 051 537\* as at 31 December 2017 and were designated at fair value through profit or loss. Differences between Fully Funded Swaps and Notes arise due to late settlements.

Due to the implementation of IFRS 9, the Fully Funded Swaps have been reclassified from Designated at fair value through profit or loss (IAS 39) to Mandatorily at fair value through profit or loss (IFRS 9).

As at 31 December 2018, Trading derivatives (Options) amount to KEUR 4 168 362 (31 December 2017: KEUR 3 806 822) and replicate all the Warrants issued by the Company (see Note 8). Differences between Options and Warrants arise due to late settlements.

As indicated in Note 3.4.2.9, as at 31 December 2018, the impact of the offsetting of financial assets and financial liabilities (decrease in the statement of financial position) is KEUR 40 786 626 for the non-sold Notes and the corresponding Fully Funded Swaps (31 December 2017: KEUR 23 631 494) and KEUR 5 281 042 for the non-sold Warrants and the corresponding Options (31 December 2017: KEUR 6 945 467).



**Notes to the financial statements**

As at 31 December 2018

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**5. Financial assets at fair value through profit or loss (continued)**

The movements in financial assets at fair value through profit or loss were as follows:

	Designated at fair value through profit or loss	Trading derivatives	Total
<b>As at 31 December 2016</b>	<b>44 030 973</b>	<b>9 133 362</b>	<b>53 164 335</b>
Acquisition	67 965 225	61 583 229	129 548 454
Cancelled / Liquidation / Maturity / Disposal	(62 800 870)	(61 466 251)	(124 267 121)
Change in fair value	567 557	2 001 705	2 569 262
Exchange difference	(3 481 366)	(499 756)	(3 981 122)
Offsetting of Assets and Liabilities (Change)	(2 229 982)	(6 945 467)	(9 175 449)
<b>As at 31 December 2017</b>	<b>44 051 537</b>	<b>3 806 822</b>	<b>47 858 359</b>
	Mandatorily measured at fair value through profit or loss	Trading derivatives	Total
<b>As at 1 January 2018</b>	<b>44 051 537</b>	<b>3 806 822</b>	<b>47 858 359</b>
Acquisition	61 735 479	33 911 397	95 646 876
Cancelled / Liquidation / Maturity / Disposal	(33 489 422)	(32 708 620)	(66 198 042)
Change in fair value	(12 067 577)	(2 686 752)	(14 754 329)
Exchange difference	1 987 248	181 090	2 168 338
Offsetting of Assets and Liabilities (Change)	(17 155 131)	1 664 425	(15 490 706)
<b>As at 31 December 2018</b>	<b>45 062 134</b>	<b>4 168 362</b>	<b>49 230 496</b>

**6. Loans and receivables**

As at 31 December 2018 and 2017, loans and receivables only consist in deposits with SGBT, which represent the reinvestment of the Company's share capital, reserves and other available funds (term deposits).

The amount of expected credit loss calculated on loans and receivables in accordance with IFRS 9 is KEUR 2 as at 31 December 2018 (1 January 2018: KEUR 3).

**7. Financial liabilities at amortised cost**

As at 31 December 2018 and 2017, financial liabilities at amortised cost are mainly composed of a convertible bond of KEUR 48 000, issued by the Company and fully subscribed by SGBT, with maturity in 2022. Conversion may occur each year.

On this convertible bond, the Company pays to SGBT both variable interests calculated on Euribor 3M plus a margin (additional spread of 2.05% / total rate of 1.741% as at 31 December 2018) and activity related interests. Activity related interests mean 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.

## Notes to the financial statements

As at 31 December 2018

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7. Financial liabilities at amortised cost (continued)

As at 31 December 2018 and 2017, the value of the equity component is estimated to be nil.

As at 31 December 2018, the Company also has amounts due to banks related to the Company's bank current accounts for KEUR 16 673 (2017: Nil).

8. Financial liabilities at fair value through profit or loss

	31.12.2018 EUR' 000	31.12.2017 EUR' 000
Financial liabilities at fair value through profit or loss		
- Designated at fair value through profit or loss (Notes)	45 053 728	44 048 143
- Trading derivatives (Warrants)	4 170 486	3 818 679
Total	49 224 214	47 866 822

As at 31 December 2018, the Company issued secured and unsecured Notes for a total amount of KEUR 45 053 728 (31 December 2017: KEUR 44 048 143):

- 29 736 unsecured Notes were issued (stock) for a total amount of KEUR 41 584 165 (31 December 2017: 23 135 unsecured Notes were issued (stock) for a total amount of KEUR 37 973 579);
- 871 secured Notes were issued (stock) for a total amount of KEUR 3 469 563 (31 December 2017: 861 secured Notes were issued (stock) for a total amount of KEUR 6 074 564).

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 2018, securities deposited at BNY MELLON as collateral for secured issuances amount to

KEUR 3 609 288 (31 December 2017: KEUR 5 369 022).

As at 31 December 2018, the Company also issued Warrants for a total amount of KEUR 4 170 486 (31 December 2017: KEUR 3 818 679). Refer to Note 19 for further details on Off-balance sheet items related to the Warrants activity.

As indicated in Note 3.4.2.9, as at 31 December 2018, the impact of the offsetting (decrease in the statement of financial position) is KEUR 40 786 626 for the non-sold Notes and the corresponding Fully Funded Swaps (31 December 2017: KEUR 23 631 494) and KEUR 5 281 042 for the non-sold Warrants and the corresponding Options (31 December 2017: KEUR 6 945 467) (see Note 5).

The movements in financial liabilities at fair value through profit or loss were as follows:

	Designated at fair value through profit or loss	Trading derivatives	Total
As at 31 December 2016	44 023 013	9 147 992	53 171 005
Acquisition	67 965 225	61 583 229	129 548 454
Cancelled / Liquidation / Maturity / Disposal	(62 800 870)	(61 466 251)	(124 267 121)
Change in fair value	572 123	1 998 932	2 571 055
Exchange difference	(3 481 366)	(499 756)	(3 981 122)
Offsetting of Assets and Liabilities (Change)	(2 229 982)	(6 945 467)	(9 175 449)
As at 31 December 2017	44 048 143	3 818 679	47 866 822

Notes to the financial statements  
As at 31 December 2018  
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8. Financial liabilities at fair value through profit or loss (continued)

	Designated at fair value through profit or loss	Trading derivatives	Total
As at 1 January 2018	44 048 143	3 818 679	47 866 822
Acquisition	62 374 839	33 934 907	96 309 746
Cancelled / Liquidation / Maturity / Disposal	(33 989 259)	(33 348 931)	(67 338 190)
Change in fair value	(12 231 930)	(2 310 924)	(14 542 854)
Exchange difference	2 007 066	412 330	2 419 396
Offsetting of Assets and Liabilities (Change)	(17 155 131)	1 664 425	(15 490 706)
As at 31 December 2018	45 053 728	4 170 486	49 224 214

Liquidity analysis is included in Note 20.

9. Other liabilities

	31.12.2018 EUR' 000	31.12.2017 EUR' 000
Operating charges payable	7 138	2 058
Other settlement accounts	5 901	41 610
Total	13 039	43 668

10. Share capital and share premium

As at 31 December 2017, the subscribed and fully paid share capital, 100% held by Société Générale Bank & Trust S.A., was EUR 2 000 160, divided into 50 004 shares with nominal value of EUR 40 each.

By resolution adopted on 12 January 2018, the Executive Board decided to increase the capital of the Company from EUR 2 000 160 to EUR 2 000 200 by the issue of a new share with a nominal value of EUR 40, subscribed by the sole shareholder. This new share includes a share premium amounting to KEUR 62 725. As per proposition of the Executive Board, the sole shareholder of the Company approved on 15 November 2018 the decision to reimburse KEUR 37 725 of the share premium.

As at 31 December 2018, the subscribed and fully paid share capital, 100% held by Société Générale Bank & Trust S.A., is EUR 2 000 200, divided into 50 005 shares with a nominal value of EUR 40 each.

The Company manages its capital to ensure it will be able to continue as a going concern. The capital may be increased, subject to the approval of the Sole Shareholder, if the Company's activity evolves, incurring specific additional risks.

11. ReservesLegal 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 2018, the legal reserve amounts to KEUR 200 (31 December 2017: KEUR 200).

Other reserves

Since 2013, the Company is fiscally integrated in the parent company. SGBT 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.

During the year 2018, the Net Wealth Tax reserve of the year 2012 amounting KEUR 1 664 became available after a period of five years, and has been released (transfer from unavailable reserves to available reserves).

Notes to the financial statements  
As at 31 December 2018  
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12. Interest income and expenses

	2018 EUR' 000	2017 EUR' 000
Interest income on cash and cash equivalents	541	-
Interest income on loans and receivables	1 141	1 059
Total interest income	1 682	1 059
Interest expenses on financial liabilities at amortised cost	(32 435)	(63 561)
Interest expenses on financial liabilities at fair value through P&L	(600)	(718)
Total interest expenses	(33 035)	(64 279)
Net interest margin	(31 353)	(63 220)

13. Net gains on financial instruments at fair value through profit or loss

	2018 EUR' 000	2017 EUR' 000
Net gain on financial instruments mandatorily at fair value through profit or loss	61 016	86 439
Net gain on trading instruments	5 676	5 044
Net change in fair value	(73)	(189)
Total	66 619	91 294

14. Personnel expenses

	2018 EUR' 000	2017 EUR' 000
Wages and salaries	(243)	(292)
Social charges and associated costs	(60)	(52)
Recharge of personnel expenses from related parties	(17)	-
Total	(320)	(344)

The Company had 3 full-time equivalent during the year ended 31 December 2018 (2017: 3).

The annual cost of pension is calculated and invoiced by SGBT, the parent company, based on SGBT's group total cost of pensions and according to the number of the Company's full time equivalent employees.

15. Other operating expenses

	2018 EUR' 000	2017 EUR' 000
Issues fees	(27 425)	(25 169)
Other operating charges	(7 271)	(2 456)
Total	(34 696)	(27 625)

Issues fees mainly consist of Listing fees, Collateral monitoring agent fees, Maintenance of registers fees, 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 Bank & Trust S.A..

Notes to the financial statements  
As at 31 December 2018  
– continued –

15. Other operating expenses (continued)

Remuneration of the Réviseur d'entreprises agréé

The fees paid by the Company to its Réviseur d'entreprises agréé were as follows:

	2018 EUR' 000	2017 EUR' 000
Statutory audit of the financial statements and review of the semi-annual financial statements	281	253

16. Taxation

The Company is liable for all taxes applicable to Luxembourg commercial companies.

Since 2007, the Company is part of a tax integration group led by SGBT, as authorised by the article 164 bis LIR and has concluded a Tax Sharing Agreement (the "Agreement") with SGBT. Under the Agreement, the Company pays to SGBT, 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.

For the year ended 31 December 2018, the theoretical tax rate is 26.01% (2017: 27.08%) while the actual tax rate of the Company is the one from the tax integration Group to which it belongs, as explained above.

Refer to Note 11 for further information on Net Wealth Tax.

17. Related parties

During the year, the Company entered into transactions with related parties. Those transactions along with related balances as at 31 December 2018 and 2017 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 its direct parent company (SGBT), its ultimate parent company (SG) and with its Executive Board Members, Supervisory Board Members and Executive Officers.

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 2018

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**17. Related parties (continued)**

<b>As at 31 December 2018 EUR' 000</b>	<b>Société Générale (Ultimate Parent Company)</b>	<b>SGBT (Parent Company)</b>
Cash and cash equivalents	73 336	1 008
<b>Financial assets at fair value through profit or loss</b>		
- Mandatorily at fair value through profit or loss	45 062 134	-
- Trading derivatives	4 168 362	-
Loans and receivables	-	52 570
<b>Total assets</b>	<b>49 303 832</b>	<b>53 578</b>
Financial liabilities at amortised cost	-	79 611
<b>Financial liabilities at fair value through profit or loss</b>		
- Designated at fair value through profit or loss	_*	-
- Trading derivatives	_*	-
Other liabilities	12 913	-
Tax liabilities	-	64
<b>Total liabilities</b>	<b>12 913</b>	<b>79 675</b>
Interest income	1 604	78
Net gains on financial instruments at fair value through profit or loss	66 692	-
<b>Total revenue</b>	<b>68 296</b>	<b>78</b>
Interest expenses	(600)	(32 435)
Personnel expenses	-	(320)
Other operating charges	(4 559)	(28 022 )
<b>Total expenses</b>	<b>(5 159 )</b>	<b>(60 777 )</b>
<b>Total comprehensive income for the year</b>	<b>63 137</b>	<b>(60 699 )</b>
<b>Financial commitments</b>	<b>2 790 111</b>	-
<b>Financial commitments-collateral to be returned</b>	<b>3 609 288</b>	-

\*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 2018

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**17. Related parties (continued)**

<b>As at 31 December 2017</b> <b>EUR' 000</b>	<b>Société Générale</b> <b>(Ultimate Parent</b> <b>Company)</b>	<b>SGBT</b> <b>(Parent</b> <b>Company)</b>
Cash and cash equivalents	99 505	4 366
<b>Financial assets at fair value through profit or loss</b>		
- Designated at fair value through profit or loss	44 051 537	-
- Trading derivatives	3 806 822	-
Loans and receivables		53 661
Other assets	-	-
<b>Total assets</b>	<b>47 957 864</b>	<b>58 027</b>
Financial liabilities at amortised cost	-	110 734
<b>Financial liabilities at fair value through profit or loss</b>		
- Designated at fair value through profit or loss	_*	-
- Trading derivatives	_*	-
Other liabilities	43 668	-
Tax liabilities	-	27
<b>Total liabilities</b>	<b>43 668</b>	<b>110 761</b>
Interest income	1 042	17
Net gains on financial instruments at fair value through profit or loss	91 483	-
<b>Total revenue</b>	<b>92 525</b>	<b>17</b>
Interest expenses	(718)	(63 561)
Personnel expenses	-	(344)
Other operating charges	(1 029)	(25 575)
<b>Total expenses</b>	<b>(1 747)</b>	<b>(89 480)</b>
<b>Total comprehensive income for the year</b>	<b>90 778</b>	<b>(89 463)</b>
<b>Financial commitments</b>	<b>1 967 092</b>	<b>-</b>
<b>financial commitments-collateral to be returned</b>	<b>5 369 022</b>	<b>-</b>

\*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.

**18. Remuneration, advances and loans granted to members of the administrative or supervisory body**

The independent director of the company, appointed 25<sup>th</sup> of June 2018, earned a remuneration of EUR 7 000 for his services related to the year ended 31<sup>st</sup> December 2018.

As at 31 December 2018 and 2017, no other payment, advance or loans were given to members of the administrative or supervisory body.

**Notes to the financial statements**

As at 31 December 2018

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**19. Off-Balance Sheet**

As at 31 December 2018, financial instruments to be issued (commitment taken before 31 December 2018 with value date after 31 December 2018) amounted to KEUR 2 790 111 (31 December 2017: KEUR 1 967 092)

All the financial instruments issued by the Company benefit from a guarantee provided by Société Générale, meaning that payments in respect of the financial instruments are unconditionally and irrevocably guaranteed by Société Générale (the Guarantor).

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 2018, securities deposited at BNY MELLON as collateral for secured issuances amount to KEUR 3 609 288 (31 December 2017: KEUR 5 369 022).

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 2018

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**19. Off-Balance Sheet (continued)**

The warrants issued as at 31 December 2018 and 2017 break down as follows:

Warrant Type	Category of Underlying	Type of Underlying	Option Type	31/12/2018			31/12/2017		
				Quantity	Notional (000 EUR)	Fair Value (000 EUR)	Quantity	Notional (000 EUR)	Fair Value (000 EUR)
Basket warrant	Basket	Index	Call	2	15 581	14 584	-	-	-
		Equity	Call	4	3 144	4 350	-	-	-
Commodity Future Warrant	Future	Mutual Fund	Put	4	7 138	6	-	-	-
		Commodity Future	Call	76	381 303	11 361	124	3 929 490	113 677
			Put	148	439 664	119 532	49	116 224	4 950
Commodity Warrant	Commodity	Mutual Fund	Call	63	161 967	40 489	68	152 538	14 835
			Put	80	240 430	27 319	57	116 801	8 458
		Precious metals	Call	12	24 767	3 657	-	-	-
			Put	14	34 545	2 235	-	-	-
Currency Warrant	Currency	Currency	Call	201	159 308	36 455	176	5 749 702	161 010
			Put	253	176 373	65 947	125	2 326 562	12 462
Equity Warrant	Equity	American Depositary Receipt	Call	21	25 218	1	7	14 641	166
			Put	18	17 817	0	5	8 547	212
		Ordinary Share	Call	4 654	26 923 067	596 199	5 348	35 182 893	1 462 682
			Put	3 487	11 659 558	790 924	3 055	10 967 356	593 243
		Other Certificate	Call	1	300	0	-	-	-
			Put	8	4 894	459	-	-	-
		Other Receipt	Call	2	2 442	0	13	31 697	10
			Put	2	1 252	0	8	9 082	12
		Own Share	Call	92	193 993	3 526	75	168 342	15 630
			Put	82	112 290	28 196	68	139 146	25 386
		Preference	Call	23	35 672	331	18	65 500	520
			Put	29	41 791	888	18	60 975	281
REIT	REIT	REIT	Call	42	148 254	908	67	180 994	9 177
			Put	35	35 074	3 453	41	87 367	3 814

**Notes to the financial statements**

As at 31 December 2018

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Index Warrant	Index	Index	Call	1 354	51 887 633	1 066 292	1 616	38 031 494	1 040 113
			Put	1 451	30 468 115	1 333 566	774	16 914 221	337 459
Fund Warrant	Fund	Mutual Fund	Call	196	1 171 799	19 733	179	1 282 982	14 451
			Put	10	137 095	75	4	35 083	130
Total Call				6 743	81 134 448	1 797 886	7 691	84 790 273	2 832 271
Total Put				5 621	43 376 036	2 372 600	4 204	30 781 364	986 407
Total Warrants				12 364	124 510 484	4 170 486	11 895	115 571 637	3 818 678

**Notes to the financial statements**

As at 31 December 2018

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**20. Risk Management**

The Company and several of its service providers are subsidiaries of the Société Générale Group and therefore benefit from Société Générale 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 (<http://www.societegenerale.com>).

***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 Fully Funded Swaps 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 will 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 (SGBT) 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.

**Notes to the financial statements**

As at 31 December 2018

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**20. Risk Management (continued)**

***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 its parent companies, SGBT and Société Générale. Therefore, the credit risk of the Company is limited to the credit risk on SGBT and Société Générale. Should this situation evolve, specific limits would be proposed to limit the credit risk incurred.

As at 31 December 2018 and 2017, no financial assets were past due or 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 2018, the rating of Société Générale is A from Standard & Poor's and A1 from Moody's.

***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.

***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 liquidity risk thanks to the perfect replication between the contractual obligations of i) the financial instruments issued by the Company and ii) the financial assets held for hedging by the Company.

***Sensitivity of the Fair Value measurement to changes in unobservable parameters for Level 3 instruments***

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 GBIS (Global Banking and Investor Solutions), in accordance with the methodologies defined by the Market Risk Department.

The Notes and the related Fully Funded Swaps are classified as Level 3 when the valuation of the associated embedded derivatives (underlyings of the Notes) is also based on unobservable market data.

**Notes to the financial statements**

As at 31 December 2018

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**20. Risk Management (continued)**

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 sensitivities depend on each parameter.

**a. Estimates of main unobservable inputs as at 31 December 2018:**

Type of underlyings	Assets In million EUR	Liabilities In million EUR	Main products	Valuation techniques used	Significant unobservable inputs	Range of unobservable inputs Min & Max
Equity / funds	16 639	16 638	Derivatives on funds, equities or baskets of stocks derivatives on funds, equities or baskets of stocks	Various option models on funds, equities or baskets on stocks	Equity volatilities	[6.7% ; 48.1%]
					Equity dividends	[0.0% ; 20.9%]
					Correlations	[-77.5% ; 98.0%]
					Hedge funds volatilities	[8.53% ; 20%]
					Mutual funds volatilities	[1.5% ; 42.2%]
Rates and Forex	3 404	3 404	Hybrid forex / interest rate or credit / interest rate derivatives	Hybrid forex interest rate or credit interest rate option pricing models	Correlations	[-41.1% ; 85%]
			Forex derivatives	Forex option pricing models	Forex volatilities	[1.0% ; 32.0%]
			Interest rate derivatives whose notional is indexed on the prepayment behaviour on European collateral pools	Prepayment modeling	Constant prepayment rates	[0.0% ; 45%]
			Inflation instruments and derivatives	Inflation pricing models	Correlations	[64.40% ; 88.9%]
			Collateralized Debt Obligations and index tranches	Recovery and base correlation projection models	Time to default correlations Recovery rate variance for single name underlyings	[0% ; 100%] [0% ; 100%]
Credit	4 490	4 489	Other credit derivatives	Credit default models	Time to default correlations	[0% ; 100%]
					Quanto correlations	[-50% ; 40%]
					Credit spreads	[0 bps ; 1 000 bps]
Commodity	41	41	Derivatives on commodities baskets	Option models on commodities	Commodities correlations	[10.6% ; 95.8%]

**Notes to the financial statements**

As at 31 December 2018

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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.

**b. Analysis per remaining maturities**

As at 31 December 2018, analysis per remaining maturities is as follows:

<b>31.12.2018 - EUR' 000</b>	<b>&lt; 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>&gt; 5 years</b>	<b>Without fixed maturity</b>	<b>Total</b>
Cash and cash equivalents	79 584	-	-	-	-	79 584
<b>Financial assets at fair value through profit or loss</b>						
- <i>Mandatorily at fair value through profit or loss</i>	2 659 566	7 215 881	20 045 169	15 141 518	-	45 062 134
- <i>Trading derivatives</i>	682 685	1 033 560	508 253	1 943 864	-	4 168 362
Loans and receivables	189	828	50 553	1 000	-	52 570
<b>Total assets</b>	<b>3 422 024</b>	<b>8 250 269</b>	<b>20 603 975</b>	<b>17 086 382</b>	<b>-</b>	<b>49 362 650</b>
<b>Financial liabilities at amortised cost</b>	16 673	31 611	48 000	-	-	96 284
<b>Financial liabilities at fair value through profit or loss</b>						
- <i>Designated at fair value through profit or loss</i>	2 648 107	7 216 548	20 037 056	15 152 017	-	45 053 728
- <i>Trading derivatives</i>	684 009	1 029 500	514 100	1 942 877	-	4 170 486
Other liabilities	13 039	-	-	-	-	13 039
Tax liabilities	64	-	-	-	-	64
<b>Total liabilities</b>	<b>3 361 892</b>	<b>8 277 659</b>	<b>20 599 156</b>	<b>17 094 894</b>	<b>-</b>	<b>49 333 601</b>

As at 31 December 2017 analysis per remaining maturities is as follows:

<b>31.12.2017 - EUR' 000</b>	<b>&lt; 3 months</b>	<b>From 3 months to 1 year</b>	<b>From 1 to 5 years</b>	<b>&gt; 5 years</b>	<b>Without fixed maturity</b>	<b>Total</b>
Cash and cash equivalents	114 889	-	-	-	-	114 889
<b>Financial assets at fair value through profit or loss</b>						
- <i>Designated at fair value through profit or loss</i>	1 608 901	5 921 371	19 240 396	17 280 869	-	44 051 537
- <i>Trading derivatives</i>	561 449	1 137 999	856 423	1 250 951	-	3 806 822
Loans and receivables	-	884	51 182	1 595	-	53 661
Other assets	-	-	-	-	-	-
<b>Total assets</b>	<b>2 285 239</b>	<b>7 060 254</b>	<b>20 148 001</b>	<b>18 533 415</b>	<b>-</b>	<b>48 026 909</b>
<b>Financial liabilities at amortised cost</b>	-	62 734	-	48 000	-	110 734
<b>Financial liabilities at fair value through profit or loss</b>						
- <i>Designated at fair value through profit or loss</i>	1 608 901	5 921 377	19 240 396	17 277 469	-	44 048 143
- <i>Trading derivatives</i>	561 449	1 137 999	856 423	1 262 808	-	3 818 679
Other liabilities	43 668	-	-	-	-	43 668
Tax liabilities	27	-	-	-	-	27
<b>Total liabilities</b>	<b>2 214 045</b>	<b>7 122 110</b>	<b>20 096 819</b>	<b>18 588 277</b>	<b>-</b>	<b>48 021 251</b>

**Notes to the financial statements**

As at 31 December 2018

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**20. Risk Management (continued)****c. The fair values together with the carrying amounts shown in the statement of financial position are as follows:**

<b>31.12.2018 - EUR' 000</b>	<b>Carrying amount</b>	<b>Fair value</b>
Cash and cash equivalents	79 584	79 584
<b>Financial assets at fair value through profit or loss</b>		
- <i>Mandatorily at fair value through profit or loss</i>	45 062 134	45 062 134
- <i>Trading derivatives</i>	4 168 362	4 168 362
Loans and receivables *	52 570	54 993
<b>Total assets</b>	<b>49 362 650</b>	<b>49 365 072</b>
<b>Financial liabilities at amortised cost *</b>	96 284	98 451
<b>Financial liabilities at fair value through profit or loss</b>		
- <i>Designated at fair value through profit or loss</i>	45 053 728	45 053 728
- <i>Trading derivatives</i>	4 170 486	4 170 486
Other liabilities	13 039	13 039
Tax liabilities	64	64
<b>Total liabilities</b>	<b>49 333 601</b>	<b>49 335 768</b>
<b>31.12.2017 - EUR' 000</b>	<b>Carrying amount</b>	<b>Fair value</b>
Cash and cash equivalents	114 889	114 889
<b>Financial assets at fair value through profit or loss</b>		
- <i>Designated at fair value through profit or loss</i>	44 051 537	44 051 537
- <i>Trading derivatives</i>	3 806 822	3 806 822
Loans and receivables *	53 661	57 087
<b>Total assets</b>	<b>48 026 909</b>	<b>48 030 335</b>
<b>Financial liabilities at amortised cost *</b>	110 734	114 318
<b>Financial liabilities at fair value through profit or loss</b>		
- <i>Designated at fair value through profit or loss</i>	44 048 143	44 048 143
- <i>Trading derivatives</i>	3 818 679	3 818 679
Other liabilities	43 668	43 668
Tax liabilities	27	27
<b>Total liabilities</b>	<b>48 021 251</b>	<b>48 024 835</b>

\* 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 SG Group credit spread curve (EUR swap curve from Bloomberg and SG 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 2018

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**20. Risk Management (continued)****d. The fair value hierarchy of IFRS 13**

As at 31 December 2018, the Company determined the fair values of its financial instruments on the basis of the following hierarchy:

<b>31.12.2018 - EUR' 000</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
<b><i>Financial assets at fair value through profit or loss</i></b>				
<b>- <i>Mandatorily at fair value through profit or loss</i></b>	<b>-</b>	<b>20 606 194</b>	<b>24 455 940</b>	<b>45 062 134</b>
<i>Commodities instruments</i>	-	1 160 486	40 872	1 201 358
<i>Credit derivatives/securities</i>	-	1 509 044	4 490 176	5 999 220
<i>Equity and index securities</i>	-	15 226 349	15 031 332	30 257 681
<i>Foreign exchange instruments/securities</i>	-	793 456	779 644	1 573 100
<i>Interest rate instruments/securities</i>	-	1 626 581	2 624 148	4 250 729
<i>Other financial instruments</i>	-	290 278	1 489 768	1 780 046
<b>- <i>Trading derivatives</i></b>	<b>-</b>	<b>4 050 694</b>	<b>117 668</b>	<b>4 168 362</b>
<i>Equity and Index instruments</i>	-	3 573 416	94 142	3 667 557
<i>Other financial instruments</i>	-	477 278	23 526	500 805
<b><i>Financial liabilities at fair value through profit or loss</i></b>				
<b>- <i>Designated at fair value through profit or loss</i></b>	<b>-</b>	<b>20 599 491</b>	<b>24 454 237</b>	<b>45 053 728</b>
<i>Commodities instruments</i>	-	1 160 486	40 872	1 201 358
<i>Credit derivatives/securities</i>	-	1 508 480	4 488 869	5 997 349
<i>Equity and index securities</i>	-	15 221 303	15 031 014	30 252 317
<i>Foreign exchange instruments/securities</i>	-	792 379	779 568	1 571 947
<i>Interest rate instruments/securities</i>	-	1 626 565	2 624 147	4 250 712
<i>Other financial instrument</i>	-	290 278	1 489 767	1 780 045
<b>- <i>Trading derivatives</i></b>	<b>-</b>	<b>4 052 818</b>	<b>117 668</b>	<b>4 170 486</b>
<i>Equity and Index instruments</i>	-	3 574 563	94 142	3 668 705
<i>Other financial instruments</i>	-	478 255	23 526	501 781



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31.12.2017 - EUR' 000	Level 1	Level 2	Level 3	Total
<b>Financial assets at fair value through profit or loss</b>				
- <b>Designated at fair value through profit or loss</b>	-	<b>19 358 047</b>	<b>24 693 490</b>	<b>44 051 537</b>
Commodities instruments	-	744 077	147 457	891 534
Credit derivatives/securities	-	1 524 341	3 747 361	5 271 702
Equity and index securities	-	14 729 634	17 069 248	31 798 882
Foreign exchange instruments/securities	-	827 707	976 913	1 804 620
Interest rate instruments/securities	-	1 391 464	1 497 472	2 888 936
Other financial instruments	-	140 824	1 255 039	1 395 863
- <b>Trading derivatives</b>	-	<b>3 739 487</b>	<b>67 335</b>	<b>3 806 822</b>
Equity and Index Instruments	-	3 424 272	56 290	3 480 562
Other financial instruments	-	315 215	11 045	326 260
<b>Financial liabilities at fair value through profit or loss</b>				
- <b>Designated at fair value through profit or loss</b>	-	<b>19 354 653</b>	<b>24 693 490</b>	<b>44 048 143</b>
Commodities instruments	-	743 946	147 457	891 403
Credit derivatives/securities	-	1 524 073	3 747 361	5 271 434
Equity and index securities	-	14 727 053	17 069 248	31 796 301
Foreign exchange instruments/securities	-	827 562	976 913	1 804 475
Interest rate instruments/securities	-	1 391 220	1 497 472	2 888 692
Other financial instruments	-	140 799	1 255 039	1 395 838
- <b>Trading derivatives</b>	-	<b>3 751 344</b>	<b>67 335</b>	<b>3 818 679</b>
Equity and Index instruments	-	3 435 129	56 290	3 491 419
Other financial instruments	-	316 215	11 045	327 260

The movements in level 3 financial liabilities at fair value through profit or loss were as follows:

EUR' 000	Level 3 (2018)		Level 3 (2017)	
	Financial liabilities at fair value through profit or loss		Financial liabilities at fair value through profit or loss	
	Designated at fair value through P&L	Trading derivatives	Designated at fair value through P&L	Trading derivatives
<b>Balance as at 1 January</b>	<b>24 693 490</b>	<b>67 335</b>	<b>22 531 600</b>	<b>93 125</b>
Acquisition *	28 458 083	92 966	19 985 859	41 973
Change in fair value	(7 233 436)	(29 060)	(946 823)	12 275
Reimbursements	(11 466 505)	(43 193)	(9 770 252)	(76 204)
Transfer from L2 to L3	199 934	4 171	129 107	2 314
Transfer from L3 to L2	(2 462 082)	(32 056)	(537 441)	-
Offsetting of the assets and liabilities	(7 735 247)	57 505	(6 698 560)	(6 148)
<b>Balance as at 31 December</b>	<b>24 454 237</b>	<b>117 668</b>	<b>24 693 490</b>	<b>67 335</b>

\* This amount includes new tranches of existing notes issued.

**Notes to the financial statements**

As at 31 December 2018

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**20. Risk Management (continued)**

The following table describes the variation in Level 3 by financial instruments:

<b>Financial liabilities at fair value through profit or loss</b>	<b>Balance at 01.01.2018</b>	Acquisitions	Change in fair value	Reimbursements	Transfers from L2 to L3	Transfers from L3 to L2	Offsetting of the assets and liabilities	<b>Balance 31.12.2018</b>
<i>Designated at fair value through P&amp;L</i>	<b>24 693 490</b>	<b>28 458 083</b>	<b>(7 233 436)</b>	<b>(11 466 505)</b>	<b>199 934</b>	<b>(2 462 082)</b>	<b>(7 735 247)</b>	<b>24 454 237</b>
Equity and index instrument	17 069 248	22 352 365	(7 192 083)	(10 041 545)	151 224	(1 917 271)	(5 390 924)	15 031 014
Commodity instruments	147 457	4 437	563 157	(680 025)	-	(7 295)	13 141	40 872
Credit derivatives	3 747 361	2 548 980	(426 996)	(247 012)	40 577	(363 987)	(810 054)	4 488 869
Foreign exchange instruments	976 913	258 965	(66 035)	(471 723)	8 133	(52 072)	125 387	779 568
Interest rate instruments	1 497 472	2 490 814	(19 858)	(143 937)	-	(101 082)	(1 099 262)	2 624 147
Others financial instruments	1 255 039	802 522	(91 621)	117 737	-	(20 375)	(573 535)	1 489 767
<i>Trading derivatives</i>	<b>67 335</b>	<b>92 966</b>	<b>(29 060)</b>	<b>(43 193)</b>	<b>4 171</b>	<b>(32 056)</b>	<b>57 505</b>	<b>117 668</b>
Equity and index instruments	56 290	88 929	(17 709)	(60 915)	4 171	(32 056)	55 432	94 142
Other financial instruments	11 045	4 037	(11 351)	17 722	-	-	2 073	23 526

**Transfers from Level 3 to Level 2**

As described in Note 3.4.2.5 "Fair Value of the financial instruments", 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...).

**Notes to the financial statements**

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**20. Risk Management (continued)**

***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), collecting 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.

**21. Subsequent events**

By resolutions adopted on 15 January 2019, the Executive Board decided to increase the capital of the Company from EUR 2 000 200 to EUR 2 000 240 by the issue of one new share with a nominal value of EUR 40, subscribed by the only shareholder.

After this increase, the subscribed and fully paid share capital is EUR 2 000 240, divided into 50 006 shares with a nominal value of EUR 40 each.

Such increase resulted in an allocation of EUR 32 149 041 to the share premium account.

There were no other subsequent events, which would require an adjustment to or additional disclosure in the financial statements as at and for the year ended 31 December 2018.

## APPENDIX IV

### DESCRIPTION OF THE GUARANTOR

#### 1. Incorporation, Duration, Seat, Purpose and Financial Year

Société Générale was founded in France in 1864. It was then nationalized in 1945, but returned to the private sector in July 1987 as a Société Anonyme under the laws of the Republic of France. Its existence has been extended to 31 December 2047.

Société Générale, which is registered under n° 552 120 222 R.C.S. Paris, has its registered office at 29, boulevard Haussmann, 75009 Paris.

The purpose of Société Générale is to engage in banking, finance, insurance brokerage and credit operations in France and outside France with all persons, corporate entities, public and local authorities in accordance with the regulations applicable to *établissements de crédit* (credit institutions).

Société Générale may also engage on a regular basis in all transactions other than those listed above, including in particular insurance brokerage, under the conditions set by the Comité de la réglementation bancaire et financière (French Banking and Financial Regulations Committee).

Generally, Société Générale may also carry out, on its own account, on behalf of third parties or in a joint venture, all financial, commercial, industrial or agricultural personalty and realty transactions, directly or indirectly related to the above-mentioned activities or likely to facilitate the accomplishment of such activities.

The financial year of Société Générale runs from 1 January to 31 December.

#### 2. Organisational Structure

Société Générale's subsidiaries included in its consolidated group as at 31 December 2018 are set out on pages 26 and 27 of the section headed "Group Management Report" in Société Générale's 2019 Registration Document.

#### 3. Business Overview

##### FRENCH RETAIL BANKING

French Retail Banking offers a wide range of products and services suited to the needs of a diversified base of individual and professional customers, businesses, non-profit associations and local authorities.

Drawing on the expertise of its teams and an efficient multi-channel distribution system, including nearly 2,740 branches, the pooling of best practices, and the optimisation and digitalisation of processes, French Retail Banking combines the strengths of three complementary brands: Societe Generale, the renowned national bank; Crédit du Nord, a group of regional banks; and Boursorama Banque, a major online bank.

The Retail Banking networks are innovating to build the relationship-focused banking group of tomorrow. French Retail Banking excels in its:

- recognised customer service;
- leading position in online and mobile banking in France;
- sales momentum; and
- continual adaptation to its customers' needs and expectations.

French Retail Banking not only strives to improve customer satisfaction across all segments, but also to further develop value-added services and support businesses with their expansion in France and worldwide. It capitalises on synergies with the specialised business lines, particularly with Insurance, Private Banking and Corporate and Investment Banking. For example, French Retail Banking distributes insurance products from Sogécap and Sogessur, subsidiaries operating within the International Retail Banking and Financial Services Division.

Life insurance outstandings amounted to EUR 93.2 billion at the end of 2018, compared with EUR 92.0 billion in 2017.

The networks continue to support the economy and help their customers finance their projects, with growth in average outstanding loans from EUR 180 billion in 2017 to EUR 186 billion in 2018. At the same time, and amid rife competition for savings inflows, dynamic deposit inflows led to a loan-to-deposit ratio of 93% in 2018 stable compared to 2017.

### **Societe Generale network**

The Societe Generale network offers solutions tailored to the needs of its individual customers and nearly 450,000 professional customers, non-profit associations and business customers trusting it with their business, drawing on three major strengths:

- 1,906 branches located mainly in urban areas where a large portion of national wealth is concentrated;
- a full and diversified range of products and services, from savings vehicles to asset management solutions, including corporate finance and payment instruments; and
- a comprehensive and innovative omnichannel system: Internet, mobile, telephone and service platforms.

With nearly 5.7 million current accounts, the individual customer base is a key component of the Societe Generale network portfolio.

Individual customer deposits amounted to EUR 91 billion in 2018, versus EUR 88 billion in 2017. Outstanding loans granted to individual customers came to EUR 78 billion in 2018, and are stable compared with 2017. Home loans accounted for 89% of this total.

With the launch of Sobrio at the start of 2018, Societe Generale has overhauled its everyday banking offering in order to simplify, streamline and secure customers' everyday banking experiences. This refined offering provides services with proven everyday utility which are immediately understandable and therefore more responsive to everyone's needs.

Societe Generale is developing a sales programme targeting high net worth customers through a partnership with Societe Generale Private Banking, which has 82 centres in France. This new

programme must provide our high net worth customers with a high level of expertise, personal attention and responsiveness over time. This development involves the implementation of 750 new asset management advisers, a process which began in the final quarter of 2018 and should continue until the beginning of 2020. With annual growth of nearly 2% over the last five years, assets under management exceeded EUR 55 billion at the end of 2018.

Societe Generale has deployed its new sales programme for its 246,000 professional customers in order to better meet their specific requirements and their new expectations with a triple relationship-focused promise: more personal attention, expertise and simplicity.

Our professional customers now enjoy full support with two expert advisers available to them: one for their working life and the other for their private life. A specific system with dedicated advisers has also been rolled out for the self-employed.

Moreover, 103 areas dedicated to professionals were opened in 2018, the goal being to reach 150 by end-2019. These areas provide all the experts and services that professional customers need to manage the everyday challenges and development of their activity.

In addition, 620 self-service areas are available to customers enabling them to benefit from extended hours to deposit cheques or cash, withdraw currency, etc. There will be 950 such areas by end-2020.

In the corporate market, 2018 was marked by strong sales momentum. At end-2018, the Bank was serving more than 94,000 corporate customers (+2% compared with 2017).

As part of its commitment to support the economy, the Societe Generale network helps its customers finance their investment projects. Business customer deposits (professionals, corporates, non-profit associations and the public sector) in 2018 came to EUR 51 billion and loans at EUR 59 billion, compared with EUR 51 billion and EUR 58 billion respectively in 2017.

In the interest of developing ever closer relations with entrepreneurs, the sales programme of the Societe Generale network is specialised according to market, with the creation, by 2020, of around 30 Regional Business Centres, dedicated to business customers, public economic actors and social and institutional economic actors. Five Business Centres have already been opened in 2018.

Moreover, the Societe Generale network can rely on the Mid Cap Investment Banking (“**MCIB**”) platform. MCIB, the Corporate and Investment bank for French SMEs and mid-caps, works in partnership with Global Banking and Investor Solutions to support listed and unlisted mid-cap companies in their development (both internal and external) and transfers (disposals, capital restructuring). It offers them a broad range of integrated Corporate and Investment Banking services (advisory, bank or market financing, private equity). The MCIB team is made up of nearly 100 professionals based in Paris and in the six regional divisions of the Societe Generale network: Lille, Rennes, Strasbourg, Marseille, Lyon and Bordeaux. This platform complements the Private Banking offer specifically targeting entrepreneurs and rooted in personal attention and responsiveness.

Moreover, the “SG ENTREPRENEURS” programme combines strategic advice for business owners with complementary solutions through the expertise of Retail Banking, Corporate and Investment Banking, Private Banking and Real Estate Finance, grouped together in regional divisions. We are committed to being the preferred partner of business owners through a comprehensive package, Societe Generale Entrepreneurs, and to supporting them at key moments of their career path as entrepreneurs, both in terms of developing their business and from a private and wealth perspective.

In order to support the businesses of the new economy, Societe Generale launched a programme aimed at start-ups in 2017. This programme is structured around several aspects, including a partnership with Bpifrance in order to strengthen relations between our two networks, and the appointment of 150 advisers dedicated to start-ups nationwide. This programme was strengthened in 2018 with dedicated support from the Mid Cap Investment Banking (MCIB) platform with their expertise in raising capital.

### **Crédit du Nord Network**

The Crédit du Nord group consists of eight regional banks - Courtois, Kolb, Laydernier, Nuger, Rhône-Alpes, Société Marseillaise de Crédit, Tarneaud and Crédit du Nord - and an investment services provider, the brokerage firm Gilbert Dupont.

The different entities of the Crédit du Nord group enjoy a great deal of autonomy in the management of their activities, which is expressed in particular by rapid decision-making and responsiveness to the demands of their customers.

The strategy of the group's banks is structured around three key elements:

- being a leading player in terms of quality Customer relations;
- developing a high level of individual and collective professionalism;
- making the most advanced services and technologies available to their customers.

The quality and strength of the results of the Crédit du Nord group are recognised by the market and confirmed by the long-term A rating attributed by Standard & Poor's and the A rating attributed by Fitch.

With a network of 836 branches, the Crédit du Nord group is on hand to serve more than 2 million individual customers, 218,000 professional customers and non-profit associations and 47,000 corporate and institutional customers.

On average in 2018, Crédit du Nord's outstanding deposits totalled EUR 43.6 billion (vs. 42.8 billion in 2017) and outstanding loans amounted to EUR 41.5 billion (vs. EUR 39.8 billion in 2017).

### **Boursorama**

A wholly-owned subsidiary of Societe Generale, Boursorama, created in 1995, is a pioneer and leader in its three main activities in France: online banking, online brokerage and online financial information with boursorama.com, the leading portal for economic and stock market news.

With nearly 1,690,000 customers at end-2018, the acceleration of customer acquisition continues and allows Boursorama to advance by one year, its 2020 growth target of 2 million customers, which will be reached in 2019.

From the device of their choice, Boursorama customers can access a range of banking products and services that:

- is comprehensive (conventional banking products – debit card, savings accounts, mortgage loans, personal loans – and investment products such as UCITS and life insurance vehicles, including the full range of products for investing in the markets - equities, trackers, warrants, certificates, turbos, SRD – deferred settlement service-, CFDs, Forex);

- is innovative (customers can open an account online in just a few clicks, access Google Home, Wicount, exclusive money management tools available in their personal banking space, which also offers a free account consolidation and management service, including accounts held with other banks);
- offers low and transparent fees (Boursorama Banque was named “Least Expensive Bank in France” for the eleventh consecutive year (Le Monde ranking – Meilleurebanque.com – 10th January 2019);
- is available and safe (advisers available until 10 p.m., secure transactions, SMS alerts, etc.).

In 2018, Boursorama expanded its range of products and services by launching car insurance, car leasing, eco-responsible credit and mobile payment solutions (Apple Pay, Samsung Pay and Google Pay). The boursorama.com portal also offers a new design and new features to facilitate analyses and decision-making. Accordingly, individual investors and shareholders can place their orders more quickly and effectively. The application has also been overhauled to make it more user-friendly.

## **INTERNATIONAL RETAIL BANKING AND FINANCIAL SERVICES**

International Retail Banking and Financial Services (IBFS) combines:

- International Retail Banking activities, divided into three Business Units: Europe, Russia and AFMO (Africa, Mediterranean Basin and Overseas France);
- three specialised businesses: Insurance, Operational Vehicle Leasing and Fleet Management, and Vendor and Equipment Finance.

Through this pillar, the Group’s ambition is to better serve all its individual and corporate customers, by adapting to changes in the economic and social environments and supporting the international growth of the Group’s customers by drawing on the strength of its network in fast-growing regions. IBFS bases its strategy on the relationship-focused universal banking model, the enhancement of its customer base through an extended range of products, and the distribution and pooling of expertise aimed at improving revenues while continually seeking to optimise risk management and the allocation of scarce resources.

With almost 73,000 employees<sup>9</sup> and commercial operations in 66 countries, IBFS is dedicated to offering a wide range of products and services to its clients (individuals, professionals and corporates).

Boasting a complementary range of expertise, IBFS enjoys solid and recognised positions in its different markets.

### **International Retail Banking**

International Retail Banking combines the services of the international banking networks and consumer finance activities. These networks are forging ahead with their growth policy and currently hold leading positions in their various regions of operation, such as Europe, Russia, the Mediterranean Basin and Sub-Saharan Africa. They help finance the economies in their different regions of development. In this way, the Group will continue to support the development of its activities through these high-potential geographic regions.

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<sup>9</sup> Headcount at end of period excluding temporary staff.



## EUROPE

The Group is established in **Western Europe** predominantly in consumer finance and car finance activities (in France, Germany and Italy). Outstanding loans grew by 10% in 2018 to EUR 20.1 billion, mainly due to the strong growth on car finance markets.

In **Czech Republic**, Komerční Banka (KB) is ranked third in terms of balance sheet size, with outstanding loans of EUR 24.6 billion, 364 branches and 8,022 employees (FTE) as of December 2018. KB, which was created in 1990 and became a subsidiary of Societe Generale in 2001, has developed its universal banking activities for individual customers and expanded its traditionally significant presence among corporate customers and municipalities. The KB group also offers a range of products intended for individual customers with ESSOX (consumer loans and car financing), Modra Pyramida (mortgage facilities), as well as a range developed in collaboration with Private Banking. In May 2018, it presented to analysts its strategic program “KB Change 2020”, aimed at adapting the Bank to the evolutions of the banking sector.

In **Romania**, BRD is the leading privately-owned banking network in the country, with 723 branches, and the No. 3 bank in terms of balance sheet size, with market share of approximately 13% in deposits and 12% in loans as of June 2018. The Societe Generale Group became BRD's main shareholder in 1999. The BRD group's activity is divided into three major business lines: Retail Banking (individual and professional customers, SMEs), Corporate and Investment Banking, and Consumer Finance with BRD Finance. The bank was awarded “Best Bank in Romania” by The Banker magazine. Outstanding loans and deposits totalled respectively EUR 6.8 billion and EUR 9.7 billion.

In 2018, Societe Generale announced the sales of its majority stake in 4 of its European subsidiaries (SG Express Bank in Bulgaria, SG Albania in Albania, Eurobank in Poland, SG Srbija in Serbia).

The Group is also established in Slovenia, Moldova<sup>10</sup>, Montenegro<sup>2</sup> and Macedonia<sup>2</sup>.

## RUSSIA

The Group is developing its universal banking model and has established itself as the No. 2 banking group financed with foreign capital in Russia based on balance sheet size, with outstanding loans and deposits reaching respectively EUR 9.1 billion and EUR 9.3 billion at the end of 2018. Societe Generale operates in Russia through several banking entities covering the different individual and corporate customer markets: DeltaCredit is specialised in home loans, Rusfinance Bank in car & POS loans, and Rosbank is continuing to roll out a more “everyday banking”- oriented range of products and services.

Regarding its corporate customers, the Group continues to focus on financing and investment activities (in partnership with SG CIB), targeting Russian and multi-national large corporates in particular, while gradually expanding its target client base. At the same time, operational efficiency and risk reduction continue to be a primary focus.

Furthermore, the Group operates in Russia through other consolidated entities in the Insurance activity (Societe Generale Insurance) and in corporate financial services.

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<sup>10</sup> In 2019, SG announced the sales of its entities.

## **AFRICA, MEDITERRANEAN BASIN AND OVERSEAS FRANCE**

Societe Generale reaffirmed its commitment for Africa within the strategic plan “Transform to Grow”, and its contribution the development of the banking and financial system through its operations in 19 countries. This commitment was greeted by Euromoney magazine which named Societe Generale “Best bank in Africa” at the 2018 Awards for excellence ceremony.

In the **Mediterranean Basin**, the Group is mainly present in Morocco (since 1913), Algeria (since 1999), and Tunisia (since 2002). Overall, this set-up covers 681 branches with more than 2 million customers. As at 31st December 2018, outstanding deposits came to EUR 9.9 billion and outstanding loans to EUR 11.0 billion.

In **Sub-Saharan Africa**, the Group intends to take advantage of the continent’s strong potential for economic growth and bank account penetration by building on its presence in 16 countries, with strong local positions, notably Côte d’Ivoire (No. 1 for loans and deposits), Senegal (No. 2 for loans and deposits) and Cameroon (No. 1 for loans and No.2 for deposits). In 2018, the region experienced a considerable increase in outstanding loans to EUR 5.8 billion (+6%) and deposits to EUR 7.2 billion (+9%).

Besides the “Best bank in Africa” award, Euromoney granted Societe Generale Algérie and SGBCI (Côte d’Ivoire) the “Best bank” awards in their respective countries. Societe Generale was also granted by many other awards: “Best bank” and “Best investment bank” in Cameroon for the fourth consecutive year; “Best foreign bank”, “Best investment bank” and “Best asset manager” in Morocco (EMEA Finance magazine); “Best bank” in Algeria, Benin, Côte d’Ivoire, Guinea and Cameroon, and “Best trade finance bank” in Algeria, Cameroon, Côte d’Ivoire and Tunisia (Global Finance).

To support the strategic stakes within the Group’s “Transform to grow” program, the “Grow with Africa” initiative, launched in November 2018, aims to contribute collectively to the sustainable development of Africa. This initiative, which runs in partnership with local territories and actors as well as international experts, by establishing dialogue, listening and sharing innovative means and approaches, focuses on 4 areas of development: supporting the development of African SMEs, taking part in the infrastructure financing, offering services that promote people’s development through financial inclusion, and developing innovative financing for renewable energies and agribusiness.

In **Overseas France**, the Group is established in Reunion and Mayotte, in the West Indies (Martinique, Guadeloupe), Guyana, French Polynesia and New Caledonia, where it has been present for more than 40 years. In these regions, Societe Generale offers the same services as available in mainland France for individual and corporate customers.

### **Insurance (Societe Generale Insurance)**

Based on an integrated bank insurance model, Societe Generale Group’s Insurance business covers the needs of individual, professional and corporate customers for life insurance investment solutions, personal protection and property and casualty insurance. The life and non-life insurance companies of Societe Generale Insurance offer the Group’s networks, in France and abroad, a full range of insurance products and services: life insurance investment solutions, retirement savings, and personal protection, health, credit life, group life, property and casualty, and other insurance. Societe Generale Insurance is also diversifying its distribution models and developing partnership agreements with players outside the Group.

In 2018, Societe Generale Insurance forged ahead with the growth of its activities while enriching the services offered to policyholders. Furthermore, the diversification of Societe Generale Insurance’s business mix picked up speed with the development of the share of unit-linked funds in life insurance

investment solutions and the development of personal protection and property and casualty insurance. From the 1st of April 2017, the Group's Insurance business has integrated Antarius, the life insurance company dedicated to the Crédit du Nord networks.

At the end of 2018, Societe Generale Insurance's outstandings in life assurance investment solutions rose by + 1% to reach EUR 115 billion; the share of unit-linked outstandings amounted to 26%, stable compared with 2017. In personal protection and property and casualty insurance, revenue was up by 9% compared with 2017. In 2018, Societe Generale Insurance accelerated the digital transformation of its bank insurance model by favouring the development of innovative products to increase its clients' satisfaction. Thus, in property and casualty insurance, Societe Generale Insurance has rolled out in France, online sales with digital signature for the subscription of car insurance and property insurance policies for clients of the Societe Generale network, while in Russia, it has put forward a full online subscription programme for mortgage loan insurance distributed by DeltaCredit. In life insurance investment solutions, Societe Generale Insurance has rolled out Synoé, an innovative digitalised advisory management solution, in partnership with Societe Generale Private Banking France. Societe Generale Insurance has also continued to diversify its business model in synergy with other Group businesses such as ALD and Boursorama, but also with external partners in order to experiment with new markets and new offers.

## **Financial Services to Corporates**

### **OPERATIONAL VEHICLE LEASING AND FLEET MANAGEMENT (ALD AUTOMOTIVE)**

ALD Automotive offers mobility solutions centred on operational vehicle leasing and fleet management for businesses of all sizes in both local and international markets, as well as for private individuals. This activity combines the financial benefits of operational leasing with a complete range of high-quality services, including in particular maintenance, tyre management, fuel consumption, insurance and vehicle replacement.

ALD Automotive has the largest geographical coverage of any leasing company (43 countries), and manages more than 1.66 million vehicles. It has unique knowledge of emerging markets and has established partnerships with Wheels in North America, FleetPartners in Australia and New Zealand, Absa in South Africa, AutoCorp in Argentina, and Arrend Leasing in Central America. In 2018, the business holds the No. 1 position in Europe in multi-brand operational vehicle leasing and fleet management, and the second position worldwide.

A pioneer in mobility solutions, ALD Automotive is constantly innovating in order to provide the best support to its customers, fleet managers and drivers, with an offer tailored to their needs. This strategy was recognised once again in 2018: for the eleventh year in a row, ALD Automotive France won the "2019 Customer Service" award on the operational vehicle leasing market (BVA group -Viséo CI survey conducted from May to July 2018).

ALD has been listed on the Euronext Stock Market since June 2017 with the listing of 20.18% of its shares. Societe Generale remains ALD's controlling shareholder and ALD Automotive continues to benefit from the Group's financing capacity.

### **VENDOR AND EQUIPMENT FINANCE (SGEF)**

Societe Generale Equipment Finance is specialised in vendor and professional equipment finance. This business is conducted through partnership agreements with vendors (professional equipment manufacturers and distributors), banking networks and also directly. Societe Generale Equipment Finance develops its expertise in three major sectors: transport, industrial equipment and high-tech.

As a leading company in Europe, SGEF operates in 22 countries and manages a portfolio of EUR 18.7 billion in outstandings. It has a broadly diverse customer base, ranging from large international companies to SMEs, to which it offers a varied range of products (financial leasing, loans, leasing, purchase of receivables, etc.) and services (insurance, truck leasing with services).

Regularly recognised by the leasing industry, Societe Generale Equipment Finance was named “European Lessor of the Year” at the Leasing Life Awards held on 15th November 2018 in Tallinn.

## **GLOBAL BANKING AND INVESTOR SOLUTIONS**

The purpose of Global Banking and Investor Solutions (GBIS) is to provide Global Markets and Investor Services, Financing and Advisory, and Asset Management and Private Banking to a select customer base of businesses, financial institutions, investors, wealth managers and family offices, as well as private clients.

At the hub of economic flows between issuers and investors, GBIS supports its customers over the long-term, offering them a variety of services and integrated solutions tailored to their specific needs.

GBIS employs around 22,000 people located in 45 countries, and has operations<sup>11</sup> in more than 70 countries. It has extensive European coverage and representative offices in Central and Eastern Europe, the Middle East, Africa, the Americas and the Asia-Pacific region. GBIS experts offer their issuers (large corporates, financial institutions, sovereigns and the public sector) strategic advice on their development as well as market access to finance this development and hedge their risks. They also offer services for investors managing savings according to set risk/return targets. Whether they are asset managers, pension funds, family offices, hedge funds, sovereign funds, public agencies, private banks, insurance companies or distributors, the Bank provides comprehensive access to the equities and fixed income, credit, currencies and commodities markets along with a range of unique cross-asset solutions and advisory services, drawing on leading, research expertise. This offering is completed by a full range of investor services.

The Group’s ambition is to become the leading partner bank, delivering the most relevant and value-added experience to its clients, from Europe to the rest of the world. To achieve this ambition, the Group is accelerating its platform strategy with the aim of building THE pioneering marketplace for Business-to-Business financial services, capitalising on the functionality of the SG Markets tool.

Against a backdrop of growing disintermediation, and given the new regulations, SG is continuing its repositioning process focused on enhancing distribution capacities and streamlining operations that do not generate significant synergies.

### **Global Markets and Investor Services**

The Global Markets and Investor Services (GMIS) Division continues to develop an integrated capital markets offering for its customers combining the “Fixed Income, Currencies and Commodities”, “Equities and Prime Services” and Securities Services Departments. As such, the division combines the strength of a leading financial institution offering global access to markets with the customer-oriented approach of a broker positioned as a market leader in its activities.

In 2018, Societe Generale was awarded the prestigious title of “Global Best Derivatives Bank” (Global Finance Global Bank Award 2018), “Structured Products House of the year” (Risk Awards 2019) and

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<sup>11</sup> In-country operations through partnerships within the Societe Generale Group.

“Most Innovative Investment Bank for Risk Management” (The Banker Awards 2018) for the excellence of its products and services. Global Capital also named Societe Generale “Corporate Solutions Provider of the Year”.

To assist its customers in today’s web of increasingly interconnected financial markets, experts (financial engineers, salespeople, traders and specialist advisors) use SG Markets, a unique integrated platform to offer bespoke solutions designed to meet the specific needs and risks of each customer.

## **FIXED INCOME, CURRENCIES AND COMMODITIES**

Fixed income, currencies and commodities (“**FICC**”) activities cover a comprehensive range of products and services ensuring the liquidity, pricing and hedging of risks related to the fixed income, credit, forex and commodity activities of SG clients.

- Fixed income, currencies and credit: teams based in London, Paris, Madrid and Milan, as well as the United States and the Asia-Pacific region, offer a wide range of flow and derivative products. Covering a variety of underlyings (forex products, private and sovereign bonds, emerging or very liquid markets, cash or derivatives), they provide their customers with high-quality research, solutions specific to asset and liability management, risk management and revenue optimisation requirements, and are also recognised on a regular basis<sup>12</sup>. In 2018, SG was also named “Most Innovative Investment Bank” for FICC Trading” by The Banker for the second consecutive year, and recognised as a Best FX Provider 2019 (Global Finance Awards) in several categories (“Best FX Execution Algorithms, Best Bank for FX Trading Technology, Best FX Provider in CEE, and Best FX Provider for Corporates”).
- Commodities: with more than 20 years of experience, the Societe Generale Group is a major player on the energy and metals markets, and has developed an agricultural commodities offer targeting producers. Societe Generale works alongside businesses and institutional investors, providing them with hedging and investment solutions. In commodities, the Bank holds the leading position in the Risk & Energy Risk Commodity 2018 Rankings in several categories<sup>13</sup>.

## **EQUITIES AND PRIME SERVICES**

Thanks to its historic presence on all of the world’s major primary and secondary equity markets and its longstanding tradition of innovation, Societe Generale is a leader in a comprehensive range of varied solutions covering all cash, derivative and equity research activities. The Equity Department is one of the Group’s areas of excellence. For several years, its expertise has been recognised by the industry and its clients. Accordingly, Societe Generale was named “Equity Derivatives House of the Year” (Risk Awards 2018) and “Best House Equities” (Structured Retail Products – SRP).

Societe Generale announced in 2018 the acquisition of Equity Markets and Commodities (EMC) activities at Commerzbank, a European leader in the design, distribution and maintenance of the structured products and flow products markets, as well as asset management solutions. With a cutting-edge platform, Commerzbank enjoys leading franchises in diversified and complementary segments. The activities concerned are based in Frankfurt, London, Hong Kong, Paris, Luxembourg

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<sup>12</sup> Best House Interest Rates, Best House Credit and Best House FX by SRP Europe 2017; #1 CEE Foreign exchange for Corporates by Euromoney FX Exchange 2018.

<sup>13</sup> #1 Best Overall Dealers (# Oil Dealers, #1 Energy Dealers, # Base Metals Dealers, # Natural Gas Dealers) and #1 Best Overall Research.

and Zurich. Commerzbank's equity brokerage and commodities hedging activities are excluded from the scope of the transaction.

The Prime Services Department was created in 2015 following the Group purchase in May 2014 of Credit Agricole's 50% stake in Newedge.

This business combines clearing activities, prime brokerage and electronic and semi-electronic execution services.

Prime Services offers a range of expertise and offers global access to a complete cross-asset service in cash and derivative instruments. The department provides its customers with a single point of access to 130 financial markets and execution venues worldwide, and a state-of-the-art Follow the Sun service making it possible to meet the needs of customers at all times. This approach was repeatedly praised by the industry in 2018, notably with the title "Highly Commended EMEA" awarded by International Securities Finance Survey 2018 as well as "Best FCM Overall" and "Best Capital Introduction Service" awarded by CTA Intelligence US Services Awards.

Moreover, Societe Generale's research simplifies the interpretation of market trends, which are subsequently used to develop market strategies, and are regularly acknowledged<sup>14</sup>.

## **SECURITIES SERVICES**

Security Services (SGSS) activities offer a comprehensive range of cutting-edge services following the latest trends in the financial markets as well as regulatory changes, including the following:

- the market-leading clearing service range;
- custody and depository bank activities, covering all asset classes;
- fund administration services for managers of complex financial products;
- issuer services, comprising primarily the administration of stock option plans, employee shareholding, etc.;
- liquidity management services (cash and securities);
- transfer agent activities, providing a full range of services, from support to fund distribution.

With EUR 4,011 billion in assets under custody at end-December 2018 (versus EUR 3,904 billion at 31st December 2017), SGSS ranks second among European custodians. It also offers custodian services to more than 3,500 mutual funds and provides valuation services for more than 4,100 mutual funds totalling EUR 609 billion in assets under management in Europe.

In 2018, Societe Generale was awarded "Client clearing broker of the year" and "Transfer agent of the year" by Global Investor Awards.

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<sup>14</sup> #1 Global Strategy, #1 Multi Asset Research, #1 Index Analysis and #1 Quantitative Research in Europe by Extel.

## Financing and Advisory

Financing and Advisory manages and develops global relations with strategic Corporate and Investment Banking Clients, mergers & acquisitions, advisory services, other corporate finance advisory services, and finance activities (structured financing, fund-raising (debt or equity), financial engineering and hedging solutions for issuers) as well as the services of Global Transaction and Payment Services.

The Coverage and Investment Banking teams offer their customers, which include businesses, financial institutions and the public sector, an integrated, comprehensive and tailored approach based on:

- extensive strategic advisory services, covering mergers and acquisitions and IPO structuring, as well as the secondary offering of shares. Societe Generale holds a leading position in the equity capital and equity-related markets, and also in euro-denominated issues for corporate and financial institutions<sup>15</sup>. This division received several awards in 2018, notably that of “Europe Investment-Grade Corporate Bond House of the Year” at the IFR Awards 2018; “ECM Bank of the Year in France and the Benelux” by Global Finance, and “Best Financial Advisor in Spain” by Merger Market;
- access to optimised fund-raising solutions through the joint venture with the Global Finance and Retail Banking teams.

The Global Finance teams rely on global expertise and sector knowledge to provide issuers with a comprehensive offering and integrated solutions in three key areas: fund-raising, structured financing and strategic hedging of interest rate, foreign exchange, inflation and commodity risks.

The fund-raising (debt) solutions offered by the Group are made possible by its ability to offer issuers access to all of the global markets and to create innovative strategic financing and acquisition or LBO financing solutions.

The business offers its customers its world-renowned structured financing expertise in many sectors and businesses: natural resources, energy, international commerce and assets – where Societe Generale was named “Global Advisor of the Year” (PFI Awards 2018) and “Best Financing Bank in the CEE” by Euromoney.

The GTPS (Global Transaction & Payment Services) teams are aimed at economic and financial actors, in particular, domestic and international financial institutions, medium and large companies with international and multinational activities, who want support with flow (banking, commercial, corporate) and/or payments management. Operating in more than 50 countries, this business line offers a full and integrated range of solutions and services based on the expertise of the Transaction Banking business lines. It brings together five transactional banking activities:

- cash management;
- trade finance;
- correspondent banking;

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<sup>15</sup> #2 All EMEA Euro Corporate Bonds, #3 All Euro Bonds par IFR.

- supply chain finance;
- foreign exchange services associated with payments of our activities, in partnership with Global Markets.

The expertise of the Global transaction Banking teams is regularly rewarded: in 2018, Flmetrix awarded them “Distinguished Provider of Transaction Banking Services” for correspondent banking, Greenwich Associates named them “Trade Finance Leader” for large companies in France, Global Finance named them “Best International Commercial Bank in France, Western Europe and Emerging Markets” and EMEA Finance awarded them “Best Cash Management Services” and “Best Cash Management Services in EMEA” and “Best Factoring Services in EMEA and Europe”.

### **Asset Management and Private Banking**

This business unit encompasses Asset Management (Lyxor Asset Management) and Private Banking, which operates under the Societe Generale Private Banking brand.

#### **Societe Generale Private Banking**

Societe Generale Private Banking is a major player in wealth management and offers wealth management services to a domestic and international clientele, drawing on the expertise of its specialist teams in wealth engineering, investment and financing solutions, in accordance with the Tax Code of Conduct as approved by the Board of Directors.

Since January 2014 and in collaboration with the French Retail Banking Division, Societe Generale Private Banking has extensively developed its relationship banking model in France, extending its offering to all individual clients with more than EUR 500,000 in their books. These clients are able to benefit from a service combining increased proximity based on 80 regional franchises and the know-how of Private Banking’s teams of experts.

Societe Generale Private Banking’s offer is available in 16 countries. As part of the 2016-2020 strategic plan, “Transform to Grow”, Societe Generale announced in 2018 the sale of its private banking activities in Belgium after entering into an agreement with the bank ABN AMRO.

In 2018, the success of Societe Generale Private Banking’s strategy was recognised and the Bank was named “Private Banking – Best Credit Provider” (WealthBriefing Swiss Awards). It was also awarded the title of “Best Private Bank for Succession Planning” by PMW/The Banker.

At end-2018, Private Banking’s outstanding assets under management totalled EUR 113 billion.

### **LYXOR ASSET MANAGEMENT**

Lyxor Asset Management (“**Lyxor**”) is a wholly-owned subsidiary of the Societe Generale Group and was founded in 1998. Lyxor is a European asset management specialist with expertise in all investment styles and has the ability to create innovative investment solutions to address the challenges of the future.

Thanks to its tradition of engineering and research, and building on an agile combination of passive, active and alternative management styles, Lyxor covers the whole liquidity spectrum and adapts to



clients' needs whatever their financial constraints by offering the best combination of long-term performance and rigorous risk management.

As a financial architect and asset manager, Lyxor advises its clients on their allocation within a comprehensive investment universe, both developed internally and selected externally in an open architecture structure. Its fiduciary services and investment platforms help institutional investors meet their investment objectives while increasing their operational efficiency.

Lyxor pioneered the asset management industry with the creation of the first alternative managed accounts platform in 1998, and the European ETF market with the first ETF on the CAC 40 index in 2001. Lyxor is now positioned as the third leading European ETF provider with 9.7%<sup>16</sup>. The business was rewarded several times in 2018 including with the title of "Best ETF Provider" by WealthBriefing European Awards and "Leading UCITS Manager Selection" by The Hedge Fund Journal.

At end 2018, from ETFs to multi-management, Lyxor's assets under management and advisory totalled EUR 118 billion.

#### **4. Board of Directors and Management**

##### **Board of Directors**

The members of the Board of Directors of Société Générale as at 1 January 2019 are as follows:

##### **Frédéric OUDÉA**

(Date of birth: 3 July 1963)

Chief Executive Officer.

##### **Lorenzo BINI SMAGHI**

(Date of birth: 29 November 1956)

Chairman of the Board of Directors.

Independent Director.

##### **William CONNELLY**

(Date of birth: 3 February 1958)

Company Director.

Independent Director, Member of the Risk Committee and Member of the Nomination and Corporate Governance Committee.

##### **Jérôme CONTAMINE**

(Date of birth: 23 November 1957)

Company Director.

Independent Director, member of the Audit and Internal Control Committee.

##### **Diane CÔTÉ**

(Date of birth: 28 December 1963)

Chief Risk Officer of LSE Group.

Independent Director, member of the Audit and Internal Control Committee.

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<sup>16</sup> Source: ETFGI, ranking by total assets under management at end-December 2017.

**Kyra HAZOU**

(Date of birth: 13 December 1956)

Company Director.

Independent Director, member of the Audit and Internal Control Committee and of the Risk Committee.

**Jean-Bernard LÉVY**

(Date of birth: 18 March 1955)

Chairman and Chief Executive Officer of EDF.

Independent Director, Chairman of the Compensation Committee and member of the Nomination and Corporate Governance Committee.

**Gérard MESTRALLET**

(Date of birth: 1 April 1949)

Independent Director, Chairman of the Nomination and Corporate Governance Committee and Member of the Compensation Committee.

**Juan Maria NIN GENOVA**

(Date of birth: 10 March 1953)

Company Director.

Independent Director, member of the Risk Committee and of the Compensation Committee.

**Nathalie RACHOU**

(Date of birth: 7 April 1957)

Company Director.

Independent Director, Chairman of the Risk Committee and member of the Nomination and Corporate Governance Committee.

**Lubomira ROCHET**

(Date of birth: 8 May 1977)

Chief Digital Officer of the L'Oréal Group

Independent Director

**Alexandra SCHAAPVELD**

(Date of birth: 5 September 1958)

Company Director.

Independent Director, Chairman of the Audit and Internal Control Committee and Member of the Risk Committee.

**France HOUSSAYE**

(Date of birth: 27 July 1967)

Director elected by employees.

Branch manager of Bois Guillaume, DEC of Rouen.

Member of the Compensation Committee.

**David LEROUX**

(Date of birth: 3 June 1978)

Director elected by employees,

In charge of General Meeting conduct for Securities Services.

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## **Group Management Committee**

The Group Management Committee of Société Générale as at 7 February 2019 is as follows:

**Frédéric OUDÉA**

Chief Executive Officer

**Diony LEBOT**

Deputy Chief Executive Officer

**Philippe AYMERICH**

Deputy Chief Executive Officer

**Séverin CABANNES**

Deputy Chief Executive Officer

**Philippe HEIM**

Deputy Chief Executive Officer

**David ABITBOL**<sup>17</sup>

Global Head of Societe Generale Securities Services

**Philippe AMESTOY**

Head of Operations and Transformation in Retail Banking activities in France

**Hervé AUDREN de Kerdrel**

Deputy Group Head of Compliance

**Pascal AUGÉ**<sup>9</sup>

Head of Global Transaction and Payment Services

**Cécile BARTENIEFF**<sup>9</sup>

Chief Operating Officer at Global Banking and Investor Solutions

**François BLOCH**

Chief Executive Officer of BRD

**Alain BOZZI**

Head of Group Internal Control Coordination

**Gilles BRIATTA**<sup>9</sup>

Group General Secretary

**Claire CALMEJANE**

Group Chief Innovation Officer

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<sup>17</sup> Head of a Business Unit or Service Unit.

**Pavel C̃EJKA<sup>9</sup>**

Chief Operating Officer at International Banking and Financial Services

**Antoine CREUX**

Chief Security Officer

**Thierry D'ARGENT<sup>9</sup>**

Head of Coverage and Investment Banking

**Bruno DELAS<sup>9</sup>**

Chief Operating Officer of the French Networks

**Marie-Christine DUCHOLET**

Head of Clients for Retail Banking activities in France

**Claire DUMAS**

Deputy Chief Financial Officer

**Ian FISHER**

Head of the Culture & Conduct Programme

**Patrick FOLLÉA<sup>9</sup>**

Head of Societe Generale Private Banking, LYXOR supervisor

**Jean-Marc GIRAUD<sup>9</sup>**

Head of Inspection and Audit Division

**Carlos GONCALVES**

Head of Global Technology Services

**Donato GONZALEZ-SANCHEZ**

Head of Corporate & Investment Banking, Private Banking, Asset Management, Securities Services and Group Country Head for Spain and Portugal

**Laurent GOUTARD<sup>9</sup>**

Head of Societe Generale Retail Banking in France

**Jean-François GRÉGOIRE<sup>9</sup>**

Head of Global Markets

**Benoît GRISONI<sup>9</sup>**

Chief Executive Officer of Boursorama

**Éric GROVEN**

Head of the Real Estate Division in Retail Banking activities in France

**Caroline GUILLAUMIN<sup>9</sup>**

Group Head of Human Resources and Group Head of Communication

**Didier HAUGUEL<sup>9</sup>**

Group Country Head for Russia

**Édouard-Malo HENRY<sup>9</sup>**

Group Head of Compliance

**Alvaro HUETE**

Deputy Head of Global Finance and Head of GLFI for the United Kingdom

**Arnaud JACQUEMIN**

CEO of Societe Generale Bank & Trust and Group Country Head for Luxembourg

**Jochen JEHLICH<sup>9</sup>**

Head of the Equipment Finance businesses and CEO of GEFA Bank

**Jan JUCHELKA**

Chairman of the Board and CEO of Komerční Banka and Group Country Head for the Czech Republic and Slovakia

**William KADOUCH-CHASSAING<sup>9</sup>**

Chief Financial Officer

**Jean-Louis KLEIN**

Deputy Chief Executive Officer for Crédit du Nord

**Slawomir KRUPA<sup>9</sup>**

Chief Executive Officer for Societe Generale Americas

**Christophe LEBLANC<sup>9</sup>**

Group Head of Corporate Resources and Digital Transformation

**Véronique LOCTIN**

Head of Corporate Accounts for Societe Generale Retail Banking in France

**Xavier LOFFICIAL**

Deputy Chief Financial Officer of the Group

**Michala MARCUSSEN**

Group Chief Economist and Head of Economic and Sectorial Research

**Anne MARION-BOUCHACOURT**

Group Country Head for Switzerland et CEO of SG Zurich

**Mike MASTERSON<sup>9</sup>**

Chief Executive Officer of ALD Automotive

**Laetitia MAUREL**

Group Deputy Head of Communication

**Alexandre MAYMAT<sup>9</sup>**

Head of the Africa/Asia/Mediterranean Basin & Overseas region, International Banking and Financial Services

**Jean-François MAZAUD**

Head of Group transformation

**Françoise MERCADAL-DELASALLES<sup>9</sup>**

Chief Executive Officer of Crédit du Nord

**Hikaru OGATA<sup>9</sup>**

Chief Executive Officer of Societe Generale Asia Pacific

**Pierre PALMIERI<sup>9</sup>**

Head of Global Finance

**Jean-Luc PARER**

Advisor to the Deputy Chief Executive Officer

**Philippe PERRET<sup>9</sup>**

Head of the Insurance businesses

**Ilya POLYAKOV**

Chief Executive Officer and Chairman of Rosbank's Management Board

**Sylvie PRÉA**

Director of Corporate Social Responsibility

**Sébastien PROTO**

Head of Group Strategy

**Sylvie RÉMOND<sup>9</sup>**

Group Chief Risk Officer

**Sadia RICKE**

Group Country Head for the United Kingdom and Head of Coverage and Investment Banking in the United Kingdom

**Grégoire SIMON-BARBOUX**

Deputy Group Chief Risk Officer

**Giovanni-Luca SOMA<sup>9</sup>**

Head of the Europe region, International Banking and Financial Services Division

**Guido ZOELLER**

Group Country Head for Germany and Head of Societe Generale Corporate & Investment Banking activities in Germany

## **5. Auditors**

In accordance with French law, Société Générale is required to have two statutory auditors (*commissaires aux comptes*).

As at the date of this document, the statutory auditors are:

- Ernst & Young et Autres (represented by Micha Missakian) of Tour First, TSA 14444, 92037 Paris-La Défense Cedex, France; and
- Deloitte & Associés (represented by Jean-Marc Mickeler) of 6, place de la Pyramide, 92908 Paris-La Défense Cedex, France.

## **6. General Meetings of Shareholders**

The annual general meeting of shareholders is convened and held as provided by legal provisions in force.

Being a credit institution, Société Générale is obliged by virtue of Article 8 of French *décret* n° 84-708 of 24 July 1984 to submit its annual financial statements at the general meeting of shareholders before 31 May of each year, unless otherwise authorised by the *Autorité de Contrôle Prudentiel et de Résolution* (French Prudential Supervisory Authority).

## **7. Share capital**

At 31 December 2018, the registered and fully-paid capital of Société Générale are EUR 1,009,897,173.75 divided into 807,917,739 ordinary shares with a nominal value of EUR 1.25 each.

## **8. Risk Management Policies**

Société Générale's 2019 Registration Document contains a reproduction of the description of Société Générale's risk management policies.

## **9. Financial Information of Société Générale**

Société Générale's consolidated financial statements as at and for the year ended 31 December 2018 prepared in accordance with IFRS as endorsed by the European Union as of 31 December 2018 are included in Société Générale's 2019 Registration Document and have been audited in accordance with French auditing professional standards by Ernst & Young et Autres and Deloitte & Associés as stated in their auditors' report dated 8 March 2019 included therein.

Any interim and/or quarterly unaudited reports will be reproduced in the relevant supplemental listing document(s) or in an addendum to the Base Listing Document. All these reports are available for inspection at the address specified in "Supplemental General Information" on pages 59 to 60 of this document.

### ***Capitalisation of Société Générale***

The following table sets out Société Générale's capitalisation as at 31 December 2018 and 31 December 2017, as adjusted to give effect to the issuance of additional debt by Société Générale since such dates.

Except as set out below (see item 5), there has been no material change in Société Générale's capitalisation since 31 December 2018.

	31 December 2018	31 December 2017	31 December 2016
	(EUR millions)	(EUR millions)	(EUR millions)
Medium and long-term debt <sup>(2) (3)</sup>			
- denominated in Euros	0	0	0
- denominated in other currencies <sup>(4)</sup>	1,747	1,668	0
<b>SUB TOTAL</b>	<b>1,747</b>	<b>1,668</b>	<b>0</b>
Long-term subordinated debt and notes			
- denominated in Euros	6,268	6,770	6,975
- denominated in other currencies <sup>(4) (5)</sup>	7,460	7,343	7,487
<b>SUB TOTAL</b>	<b>13,728</b>	<b>14,110</b>	<b>14,461</b>
<b>TOTAL</b>	<b>15,475</b>	<b>15,778</b>	<b>14,461</b>
Shareholders' equity and undated subordinated loans and capital notes			
- Undated subordinated capital notes	9,702	8,984	11,159
- Common stock	1,010	1,010 <sup>(1)</sup>	1,010
- Additional paid-in capital and retained earnings	32,312	33,118	30,643
- Net income	1,725	800	4,223
<b>TOTAL</b>	<b>43,024</b>	<b>43,912</b>	<b>47,035</b>
<b>TOTAL CAPITALISATION</b>	<b>58,499</b>	<b>59,690</b>	<b>61,496</b>

(1) At 31 December 2018, Société Générale's fully paid-up capital amounted to EUR 1,009,897,173.75 and comprised 807,917,739 shares with a nominal value of EUR 1.25.

(2) In accordance with French bank regulatory practice, the Bank debt is classified depending on its initial term to maturity as short-term (less than one year), medium-term (one to seven years) and long-term (more than seven years). Medium- and long-term debt of the bank, other than its long-term subordinated debt and undated subordinated capital notes, ranks equally with deposits.



- (3) Includes only debt in the form of debt securities. In addition to debt securities, Société Générale regularly sells to its customers term savings certificates, most of which mature in five years, and certificates of deposit in varying maturities. These instruments have maturities similar to medium- and long-term unsubordinated debt and rank equally with such debt and deposits.
- (4) Principal amounts of debt denominated in foreign currencies have been translated to Euros at the indicative exchange rates for such currencies released by the Banque de France on 31 December 2018 (first column) and on 31 December 2017 (second column).

<b>Rate of conversion : (Exchange rates against EUR)</b>	<b>31 December 2018</b>	<b>31 December 2017</b>
Exchange Rate USD :	1.1450	1.1993
Exchange Rate JPY :	125.85	135.01
Exchange Rate GBP :	0.8945	0.8872
Exchange Rate AUD :	1.6220	1.5346
Exchange Rate SGD :	1.5591	1.6024
Exchange Rate CNY :	7.8699	7.8151

- (5) Since 31 December 2018, Société Générale has, inter alia:

- redeemed EUR 115,766,000 Subordinated Tier 2 Notes due 2019;

Except as set forth in this section there has been no material change in the capitalisation of Société Générale since 31 December 2018.

The issue of notes has no fixed maturity dates (although they may be redeemed at Société Générale's option), and Société Générale may defer payment of interest on either issue in any year during which it does not declare a dividend. The issue of notes becomes due and payable upon Société Générale's liquidation, after all unsubordinated creditors have been paid in full.

### **Further Information**

As a company whose shares are quoted on the Paris Stock Exchange, Société Générale is required to make periodic and/or continuous disclosure obligations under the relevant listing rules of the Paris Stock Exchange.

Financial information and/or any major developments of Société Générale including filings requested by the Paris Stock Exchange may be viewed from [www.societegenerale.com/en/investors](http://www.societegenerale.com/en/investors).

## **APPENDIX V**

### **REPRODUCTION OF THE PRESS RELEASE DATED 3 MAY 2019 CONTAINING THE GUARANTOR'S CONSOLIDATED FINANCIAL RESULTS FOR THE FIRST QUARTER ENDED 31 MARCH 2019**

The information set out below is a reproduction of the press release dated 3 May 2019 containing the Guarantor's consolidated financial results for the first quarter ended 31 March 2019.

## Q1 2019 RESULTS

### Press release

Paris, May 3<sup>rd</sup> 2019

## Q1 19: EFFECTIVELY EXECUTING THE STRATEGIC PLAN. SUBSTANTIAL INCREASE IN CET1 AT 11.7%<sup>(2)</sup> (+55bp)

### HIGHLIGHTS AND KEY FINANCIAL DATA FOR Q1 19

- **Increase in CET1 of +55 basis points at 11.7%<sup>(2)</sup>**
- **Underlying Group net income of EUR 1,010 million. Group ROTE<sup>(1)</sup> at 8.4%**
- **Revenues of EUR 6,191 million in Q1 19 (-1.6% vs. Q1 18), with a solid performance by the businesses (+0.3%), driven in particular by International Retail Banking & Financial Services (+6.8%\* vs. Q1 18) and Financing & Advisory (+18.5% vs. Q1 18)**
- **Operating expenses under control** at EUR 4,789 million (+1.3% vs. Q1 18)
- **Still low cost of risk at 21 basis points**, with a decline in the non-performing loan ratio to 3.5%
- **Adaptation of the operational set-up in Global Banking & Investor Solutions** around the refocusing of Global Markets and the execution of the additional cost-cutting plan
- **Continued Group refocusing: finalisation of several disposals<sup>(3)</sup>** for a total impact of +20 basis points on CET1 in Q1 19 and **announcement of the disposal of SKB in Slovenia to OTP Bank** representing an estimated equivalent impact of around +7 basis points on CET1 at the closing date.

### Frédéric Oudéa, the Group's Chief Executive Officer, commented:

*"Société Générale already benefited in Q1 2019 from the initial effects of the implementation of the measures announced at the time of the 2018 full-year results. We continued with the transformation of French Retail Banking, provided further evidence of the robust momentum in International Retail Banking & Financial Services and demonstrated Global Banking & Investor Solutions' ability to rapidly adapt, with an already tangible reduction in risk-weighted assets which, combined with the finalisation of five disposals, has resulted in a substantial increase in the level of our capital. We are continuing to steadily implement our refocusing programme, with the announcement this morning of the disposal of our SKB subsidiary in Slovenia. As a result of our determined actions, we saw a substantial increase in CET1 ratio in Q1 19, strengthening our ability to achieve the 12% CET1 ratio target as soon as possible."*

*Our solid results are also based on good risk management and the controlled development of our costs, which will continue with the new cost-saving measures that we have recently introduced. Moreover, our leading position in renewable energy financing (recognised in 2018) confirms our commitment to support the positive transformations of our customers and our economies with all the responsibility necessary. All these advances illustrate the robustness of our business model and our ability to implement our strategic and financial plan despite an unfavourable European environment.”*

*The footnote \* in this document corresponds to data adjusted for changes in Group structure and at constant exchange rates.*

- (1) Underlying data. See methodology note 5 for the transition from accounting data to underlying data.*
- (2) Taking into account the assumption of a 50% subscription rate for the option of a dividend payment in shares subject to approval by the Ordinary General Meeting on May 21st, 2019 and a pay-out ratio of 50% for Q1 19 earnings*
- (3) Including the stakes in La Banque Postale Financement, Self Trade Bank, Societe Generale Expressbank (Bulgaria), Societe Generale Albania and the Private Banking activities in Belgium*

## 1. GROUP CONSOLIDATED RESULTS

<b>In EUR m</b>	<b>Q1 19</b>	<b>Q1 18</b>	<b>Change</b>	
<b>Net banking income</b>	<b>6,191</b>	<b>6,294</b>	<b>-1.6%</b>	<b>-1.9%*</b>
<i>Underlying net banking income(1)</i>	<i>6,191</i>	<i>6,294</i>	<i>-1.6%</i>	<i>-1.9%</i>
<b>Operating expenses</b>	<b>(4,789)</b>	<b>(4,729)</b>	<b>+1.3%</b>	<b>+1.3%*</b>
<i>Underlying operating expenses(1)</i>	<i>(4,345)</i>	<i>(4,223)</i>	<i>+2.9%</i>	<i>+2.9%</i>
<b>Gross operating income</b>	<b>1,402</b>	<b>1,565</b>	<b>-10.4%</b>	<b>-11.4%*</b>
<i>Underlying gross operating income(1)</i>	<i>1,846</i>	<i>2,071</i>	<i>-10.8%</i>	<i>-11.6%</i>
<b>Net cost of risk</b>	<b>(264)</b>	<b>(208)</b>	<b>+26.9%</b>	<b>+29.5%*</b>
<i>Underlying net cost of risk (1)</i>	<i>(264)</i>	<i>(208)</i>	<i>+26.9%</i>	<i>+29.5%</i>
<b>Operating income</b>	<b>1,138</b>	<b>1,357</b>	<b>-16.1%</b>	<b>-17.4%*</b>
<i>Underlying operating income(1)</i>	<i>1,582</i>	<i>1,863</i>	<i>-15.0%</i>	<i>-16.0%</i>
<b>Net profits or losses from other assets</b>	<b>(51)</b>	<b>1</b>	<b>n/s</b>	<b>n/s</b>
Income tax	(310)	(370)	-16.2%	-16.2%*
<b>Reported Group net income</b>	<b>631</b>	<b>850</b>	<b>-25.8%</b>	<b>-27.5%*</b>
<i>Underlying Group net income(1)</i>	<i>1,010</i>	<i>1,204</i>	<i>-16.1%</i>	<i>-17.4%</i>
ROE	4.2%	6.3%		
ROTE	5.5%	7.4%		
<b>Underlying ROTE (1)</b>	<b>8.4%</b>	<b>10.9%</b>		

(1) Adjusted for exceptional items and linearisation of IFRIC 21

Societe Generale's Board of Directors, which met on May 2<sup>nd</sup> 2019 under the chairmanship of Lorenzo Bini Smaghi, examined the Societe Generale Group's results for Q1 2019.

The various restatements enabling the transition from underlying data to published data are presented in the methodology notes (section 10.5).

### Net banking income: EUR 6,191m (-1.6% vs. Q1 18)

- French Retail Banking's net banking income declined -3.2% vs. Q1 18 excluding PEL/CEL provision, in a continuing low interest rate environment.
- International Retail Banking & Financial Services' net banking income rose 4.4% (6.8%\*), driven by the strong commercial momentum across all businesses and geographical regions. Accordingly, International Retail Banking revenues increased by 4.4% (8.3%\*), Insurance revenues 2.2% (2.4%\*) and Financial Services to Corporates' revenues 5.3% (4.6%\*).
- Global Banking & Investor Solutions' net banking income increased by +1.1% (-1.8%\*). Financing & Advisory revenues were 18.5% (16%\*) higher, confirming the healthy commercial momentum observed for several quarters. In contrast, the revenues of Global Markets and Investor Services were down -7.2% (-10.7%\*) in a still challenging market environment in Q1 19.

### Operating expenses: EUR -4,789m (+1.3% vs. Q1 18)

Underlying operating expenses amounted to EUR -4,345 million after linearisation of the effect of IFRIC 21, representing an increase of +2.9% (+2.9%\*) vs. Q1 18 (EUR -4,223 million).

Operating expenses were very slightly higher in French Retail Banking (+0.4%) against the backdrop of the ongoing digital transformation and the development of growth drivers. Efforts to support growth in International Retail Banking & Financial Services resulted in a positive jaws effect between revenue growth and the increase in costs (+5.1%\*, +2.1%). Global Banking & Investor Solutions' costs were down -1.6%\* (+0.1%) against a backdrop of rigorous cost management.

**Gross operating income: EUR 1,402m (-10.4% vs. Q1 18)**

Underlying gross operating income totalled EUR 1,846 million (-10.8% vs. Q1 2018).

**Cost of risk<sup>(1)</sup>: EUR -264m**

The net cost of risk amounted to EUR -264 million, 26.9% higher than in Q1 18 (EUR -208 million).

The Group's commercial cost of risk (expressed as a fraction of outstanding loans) amounted to 21 basis points, slightly higher than in Q1 18 (18 basis points).

- In French Retail Banking, the commercial cost of risk was lower at 20 basis points (29 basis points in Q1 18) due to a selective origination policy.
- International Retail Banking & Financial Services' cost of risk stood at 39 basis points (28 basis points in Q1 18). This still low level reflects the gradual normalisation of the cost of risk as well as a negative base effect in Q1 18 following the receipt of an insurance payout in Romania.
- Global Banking & Investor Solutions' cost of risk amounted to 10 basis points, an increase compared to the particularly low level of -7 basis points in Q1 18.

The Group expects a cost of risk of between 25 and 30 basis points in 2019.

The gross doubtful outstandings ratio stood at 3.5% at end-March 2019 (vs. 4.2% at end-March 2018). The Group's gross coverage ratio for doubtful outstandings stood at 55%<sup>(1)</sup> at end-March 2019 (it was 54% at December 31<sup>st</sup>, 2018).

**Operating income: EUR 1,138m (-16.1% vs. Q1 18)**

Underlying operating income came to EUR 1,582 million, down -15.0% vs. Q1 2018.

**Net profits or losses from other assets: EUR -51m**

Net profits or losses from other assets totalled EUR -51 million in Q1 19, including EUR -53 million corresponding to the effect of the application of IFRS 5 as part of the implementation of the Group's refocusing plan. In this respect, the Group recognised a capital loss of EUR -67 million in connection with the announced disposal of SKB in Slovenia, corresponding to goodwill amortisation. The Group also recognised an overall impact of EUR +14 million following the finalisation of the disposal of its Private Banking activities in Belgium, Societe Generale Albania, Express Bank in Bulgaria and La Banque Postale Financement.

**Net income**

In EURm	Q1 19	Q1 18
Reported Group net income	631	850
Underlying Group net income <sup>(2)</sup>	1,010	1,204

In %	Q1 19	Q1 18
ROTE (reported)	5.5%	7.4%
Underlying ROTE <sup>(2)</sup>	8.4%	10.9%

Earnings per share amounts to EUR 0.65 (EUR 0.93 in Q1 18).

(1) Ratio between the amount of provisions on doubtful outstandings and the amount of these same outstandings.

(2) Adjusted for exceptional items and effect of the linearisation of IFRIC 21.

## 2. THE GROUP'S FINANCIAL STRUCTURE

Group **shareholders' equity** totalled EUR 61.8 billion at March 31<sup>st</sup>, 2019 (EUR 61.0 billion at December 31<sup>st</sup>, 2018). Net asset value per share was EUR 65.39 and tangible net asset value per share was EUR 57.05, an increase of 2.3% vs. December 31<sup>st</sup>, 2018.

The **consolidated balance sheet** totalled EUR 1,364 billion at March 31<sup>st</sup>, 2019 (EUR 1,309 billion at December 31<sup>st</sup>, 2018). The net amount of customer loan outstandings at March 31<sup>st</sup>, 2019, including lease financing, was EUR 426 billion (EUR 421 billion at December 31<sup>st</sup>, 2018) – excluding assets and securities sold under repurchase agreements. At the same time, customer deposits amounted to EUR 404 billion, vs. EUR 399 billion at December 31<sup>st</sup>, 2018 (excluding assets and securities sold under repurchase agreements).

At end-March 2019, the parent company had issued EUR 13.3 billion of medium/long-term debt, having an average maturity of 4.6 years and an average spread of 67 basis points (vs. the 6-month mid-swap, excluding subordinated debt). The subsidiaries had issued EUR 0.5 billion. At March 31<sup>st</sup>, 2019, the Group had issued a total of EUR 13.8 billion of medium/long-term debt. The LCR (Liquidity Coverage Ratio) was well above regulatory requirements at 139% at end-March 2019 vs. 129% at end-December 2018. At the same time, the NSFR (Net Stable Funding Ratio) was over 100% at end-March 2019. At end-April 2019, the Group had achieved nearly 60% of its vanilla long-term financing programme scheduled for 2019.

The Group's **risk-weighted assets** (RWA) amounted to EUR 366.1 billion at March 31<sup>st</sup>, 2019 (vs. EUR 376.0 billion at end-December 2018) according to CRR/CRD4 rules. Risk-weighted assets in respect of credit risk represent 81.7% of the total, at EUR 299.2 billion, down -1.2% vs. December 31<sup>st</sup>, 2018.

At March 31<sup>st</sup>, 2019, the Group's fully-loaded **Common Equity Tier 1** ratio stood at 11.5%<sup>(1)</sup>, (11.7%<sup>(2)</sup>). The Tier 1 ratio stood at 14.3%<sup>(2)</sup> at end-March 2019 (13.7% at end-December 2018) and the total capital ratio amounted to 17.5%<sup>(2)</sup>.

With a level of 25.2%<sup>(2)</sup> of RWA and 7.4%<sup>(2)</sup> of leveraged exposure at end-March 2019, the Group's TLAC ratio is already above the FSB's requirements for 2019. At March 31<sup>st</sup>, 2019, the Group was also above its MREL requirements of 8% of the TLOF<sup>(3)</sup> (which, in December 2016, represented a level of 24.36% of RWA), which were used as a reference for the SRB calibration.

The **leverage ratio** stood at 4.2% at March 31<sup>st</sup>, 2019 (4.2%<sup>(2,4)</sup> vs. 4.3% at end-December 2018).

The Group is rated by five rating agencies: (i) DBRS - long-term rating (senior preferred debt) "A (high)", positive trends, short-term rating "R-1 (middle)"; (ii) FitchRatings - long-term rating "A", stable outlook, senior preferred debt rating "A+", short-term rating "F1"; (iii) Moody's - long-term rating (senior preferred debt) "A1", stable outlook, short-term rating "P-1"; (iv) R&I - long-term rating (senior preferred debt) "A", stable outlook; and (v) S&P Global Ratings - long-term rating (senior preferred debt) "A", positive outlook, short-term rating "A-1".

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(1) The phased-in ratio, excluding the option of a dividend payment in shares and including Q1 earnings, amounts to 11.5% at end-March 2019 vs. 11.0% at end-December 2018

(2) Taking into account the option of a dividend payment in shares subject to approval by the Ordinary General Meeting on May 21<sup>st</sup>, 2019, with the assumption of a 50% subscription rate, having in particular an impact of +24bp on the CET1 ratio

(3) TLOF: Total Liabilities and Own Funds

(4) 4.3% after taking into account the decision of the General Court of the European Union on July 13<sup>th</sup>, 2018 regarding the exclusion of certain exposures related to savings passbook accounts centralised at the Caisse des Dépôts which requires the agreement of the ECB

### 3. FRENCH RETAIL BANKING

<b>In EUR m</b>	<b>Q1 19</b>	<b>Q1 18</b>	<b>Change</b>
Net banking income	1,916	2,008	-4.6%
<i>Net banking income excl. PEL/CEL</i>	<i>1,928</i>	<i>1,992</i>	<i>-3.2%</i>
Operating expenses	(1,486)	(1,480)	+0.4%
<b>Gross operating income</b>	<b>430</b>	<b>528</b>	<b>-18.6%</b>
<i>Gross operating income excl. PEL/CEL</i>	<i>442</i>	<i>512</i>	<i>-13.7%</i>
Net cost of risk	(94)	(134)	-29.9%
<b>Operating income</b>	<b>336</b>	<b>394</b>	<b>-14.7%</b>
<b>Reported Group net income</b>	<b>234</b>	<b>270</b>	<b>-13.3%</b>
RONE	8.3%	9.5%	
<b>Underlying RONE (1)</b>	<b>10.4%</b>	<b>10.8%</b>	

(1) Adjusted for the linearisation of IFRIC 21, PEL/CEL provision

In line with 2018, Q1 2019 was characterised by the persistently low interest rate environment and the ongoing transformation of the French networks. Against this backdrop, French Retail Banking enjoyed a healthy commercial momentum and the financial performance remained resilient. Underlying RONE stood at 10.4% in Q1 19.

#### Activity and net banking income

French Retail Banking's three brands, Societe Generale, Crédit du Nord and Boursorama, pursued their commercial expansion, particularly for their growth drivers.

Boursorama gained 123,000 new clients in Q1 19 and consolidated its position as the leading online bank in France, with 1.8 million clients at end-March, an increase of +30% year-on-year.

At the same time, the Societe Generale and Crédit du Nord networks strengthened their franchises on the Group's target customers.

There was further expansion in the mass affluent and wealthy client base in Q1 19 (+3% vs. Q1 18). Net inflow for wealthy clients remained robust at EUR 1.2 billion, taking assets under management to EUR 64.9 billion (including Crédit du Nord) at end-March 2019, up 4.9% vs. Q1 18.

Bancassurance enjoyed buoyant activity: life insurance experienced net inflow of EUR 515 million. Outstandings were up +0.7% at EUR 93.7 billion, with the unit-linked share accounting for 24%.

Societe Generale continued with the rollout of regional business centres, in order to increase its proximity with Business customers. Four new units were rolled out in Q1 19, taking the number of centres to nine at end-March. 42 structured finance transactions have been completed in Q1 19.

In the case of Professional customers, Societe Generale opened a new "Pro Corner" (espace pro) in Q1 19 (nine in total at end-March). It had 118 "corners" dedicated to professionals in the branches, as at end-March 2019.

In a low interest rate environment, the Group continued with its selective origination strategy.

Housing loan production totalled EUR 4.6 billion in Q1 19 and consumer loan production came to EUR 984 million in Q1 19.

Outstanding loans to individuals totalled EUR 112.5 billion in Q1 19, up +3.0% vs. Q1 18.



Corporate investment loan production came to EUR 3.2 billion in Q1 19 and average investment loan outstandings rose +6.3% vs. Q1 18.

Overall, the commercial momentum remained robust: average loan outstandings rose +4.3% vs. Q1 18 (to EUR 192 billion) and average outstanding balance sheet deposits +3.8% (to EUR 202.8 billion), still driven by sight deposits (+8.6%). As a result, the average loan/deposit ratio stood at 94.6% in Q1 19.

French Retail Banking posted revenues (after neutralising the impact of PEL/CEL provisions) of EUR 1,928 million in Q1 19, stable vs. Q4 18 but down -3.2% vs. Q1 18 (which was the quarter with the highest revenues in 2018).

The Group expects a gradual improvement in the trend in 2019, with a decline in net banking income of between 0% and -1% in 2019.

Although still adversely affected by the low interest rate environment, there was an improvement (+1.8%) in net interest income vs. Q4 18 to EUR 983 million (-3.3% vs. Q1 18). Commissions were 2.5% lower in Q1 19, due to the sharp decline in financial commissions in a challenging stock market environment, whereas service commissions proved resilient despite the banking industry's commitment not to increase the price of its services.

### **Operating expenses**

French Retail Banking's operating expenses totalled EUR 1,486 million in Q1 19, slightly higher (+0.4%) than in Q1 18. The digital transformation process and the development of growth drivers continued: to date, 75% of day-to-day transactions and standard offerings can be carried out or accessed online. The Group also closed 30 Societe Generale branches in Q1 19, amounting in total since end-2015, to more than 60% of its 2020 target (-500 branches).

The cost to income ratio stood at 73.2% in Q1 19 (after linearisation of the IFRIC 21 charge).

### **Operating income**

The net cost of risk declined by 29.9% in Q1 19 vs. Q1 18, corresponding to 20bp (vs. 30bp in Q4 18) and reflecting a selective origination strategy. Operating income came to EUR 336 million in Q1 19 (EUR 394 million in Q1 18).

### **Contribution to Group net income**

French Retail Banking's contribution to Group net income amounted to EUR 234 million in Q1 19 (EUR 270 million in Q1 18). The return on normative equity (after linearisation of the IFRIC 21 charge and restated for the PEL/CEL provision) stood at a resilient level of 10.4% (vs. 10.8% in Q1 18).

## 4. INTERNATIONAL RETAIL BANKING & FINANCIAL SERVICES

<b>In EUR m</b>	<b>Q1 19</b>	<b>Q1 18</b>	<b>Change</b>	
Net banking income	2,076	1,989	+4.4%	+6.8%*
Operating expenses	(1,204)	(1,179)	+2.1%	+5.1%*
<b>Gross operating income</b>	<b>872</b>	<b>810</b>	<b>+7.7%</b>	<b>+9.3%*</b>
Net cost of risk	(128)	(91)	+40.7%	+46.6%*
<b>Operating income</b>	<b>744</b>	<b>719</b>	<b>+3.5%</b>	<b>+4.7%*</b>
Net profits or losses from other assets	1	4	-75.0%	-74.7%
<b>Reported Group net income</b>	<b>464</b>	<b>429</b>	<b>+8.2%</b>	<b>+9.7%*</b>
RONE	16.0%	15.1%		
<b>Underlying RONE (1)</b>	<b>17.6%</b>	<b>17.0%</b>		

(1) Adjusted for the linearisation of IFRIC 21

Net banking income totalled EUR 2,076 million in Q1 2019, up +4.4% vs. Q1 18, driven by an excellent commercial momentum in all regions and businesses. In line with the growth in revenues, operating expenses amounted to EUR -1,204 million (+2.1%), confirming the division's high operational efficiency, with a positive jaws effect in Q1 19. Gross operating income totalled EUR 872 million in Q1 19 (+7.7% vs. Q1 18).

The net cost of risk remained at a moderate level of EUR 128 million, up +40.7% given a base effect related primarily to the receipt of an insurance payout in Romania in Q1 18. The contribution to Group net income totalled EUR 464 million, up +8.2% vs. Q1 18.

The cost to income ratio came to 58% (59.3% in Q1 18) and underlying RONE stood at 17.6% (17% in Q1 18).

Moreover, in order to increase International Retail Banking's agility and operational efficiency, the Group wants to simplify the head office's organisational structure by rationalising and integrating the shared services dedicated to each region. Consequently, the headcount of the corporate functions dedicated to International Retail Banking would be reduced by nearly 40%.

### International Retail Banking

International Retail Banking's outstanding loans rose +3.3% and outstanding deposits +3.0% including the impact of disposals finalised in Q1 19. When adjusted for changes in Group structure and at constant exchange rates, outstanding loans were up +7.5%\* at EUR 92 billion at end-March 2019, with a healthy momentum in all regions especially in Russia in a very buoyant banking market. Deposit inflow was also dynamic, especially in Russia and Africa, with growth of +8.0%\* year-on-year. Outstanding deposits totalled EUR 83 billion at end-March 2019.

International Retail Banking revenues were 4.4% (8.3%\*) higher than in Q1 2018 at EUR 1,387 million, while operating expenses remained under control at EUR 858 million, up +1.3% (+5.7%\*) vs. Q1 18. Gross operating income came to EUR 529 million, up +10% (+12.9%\*) vs. Q1 18. International Retail Banking's contribution to Group net income amounted to EUR 246 million (+7.4% vs. Q1 18).

In Western Europe, the Group delivered a solid commercial performance. Outstanding loans were up +11.6% vs. end-March 2018, at EUR 20.7 billion. Car financing remained particularly buoyant in all

regions. Revenues totalled EUR 216 million, up +10.2% vs. Q1 18, while operating expenses remained under control at EUR -104 million (+4%). With a stable net cost of risk, operating income was 26.2% higher. The contribution to Group net income came to EUR 59 million, up +28.3% vs. Q1 18.

In the Czech Republic, outstanding loans rose +0.9% (+2.4%\*) and outstanding deposits +2.7% (+4.2%\*) vs. end-March 2018. The volume effect, combined with a rise in rates, resulted in revenues increasing +5.2% (+6.4%\*) vs. Q1 18 to EUR 283 million in Q1 19. At the same time, operating expenses were slightly higher (+1.8%, +2.9%\*) at EUR -169 million. There was a net write-back in the net cost of risk of EUR 7 million compared with a net write-back of EUR 3 million in Q1 18. The contribution to Group net income came to EUR 61 million, up +15.1% vs. Q1 18.

In Romania, outstanding loans totalled EUR 6.4 billion at end-March 2019, down -1.6% but up +4.9% when adjusted for changes in Group structure and at constant exchange rates vs. end-March 2018. Over the same period, deposits were slightly lower (-2.1%) at EUR 9.3 billion (stable at constant exchange rates). Still driven by a backdrop of rising interest rates and a good commercial performance, net banking income climbed +7.2% (+9.1%\*) vs. Q1 18. Operating expenses were 11.1% (13%\*) higher given the increase in regulatory and payroll costs. There was a net write-back in the net cost of risk of EUR 5 million compared with a net write-back of EUR 33 million in Q1 18 which included insurance payouts. The BRD group posted a contribution to Group net income of EUR 24 million, down -38.5% vs. Q1 18.

In other European countries, outstanding loans and deposits were lower at current structure by respectively -20.2% and -27.7% given the disposals finalised in Q1 19. However, when adjusted for changes in Group structure and at constant exchange rates, there was a healthy commercial momentum with growth in outstanding loans of +7.0%\* and deposits of +7.7%\* vs. end-March 2018. Revenues declined -17.9% (+6.5%\*) vs. Q1 18, while operating expenses were 27.8% (4.1%\*) lower than in Q1 18. The net cost of risk remained under control, resulting in a significant decline of -66.7% (-68.4%\*) vs. Q1 18. The contribution to Group net income came to EUR 37 million (+23.3%, +56.5%\*).

In Russia, commercial activity was dynamic in a buoyant banking market. At end-March 2019, outstanding loans were up +18.2%\* at constant exchange rates (+14.3% at current exchange rates) while outstanding deposits climbed +32.7%\* (+29.9%) benefiting from the surplus liquidity in the market. Net banking income for SG Russia<sup>(1)</sup> came to EUR 199 million in Q1 19, up +12.5%\* (+5% at current exchange rates) vs. Q1 18. Operating expenses were slightly higher (+3.2%\*, -3.1% at current exchange rates). The net cost of risk amounted to EUR 29 million, an increase of EUR 13 million compared to the low level in Q1 18. SG Russia made a positive contribution to Group net income of EUR 20 million in Q1 19, up +11.4% vs. Q1 18.

In Africa and the other regions where the Group operates, commercial activity was generally healthy in both Sub-Saharan Africa and the Mediterranean Basin. Outstanding loans rose +7.8% (+6.2%\*) vs. Q1 18 to EUR 21.4 billion. Outstanding deposits were significantly higher (+10.2%, +8.5%\*) especially in Sub-Saharan Africa at EUR 21.6 billion. Net banking income totalled EUR 427 million, up +8.9% (+6.7%\*). Operating expenses rose +11.5% (+9.3%\*), in conjunction with the commercial expansion and organisational changes. The contribution to Group net income came to EUR 53 million in Q1 19, up +8.2% vs. Q1 18.

## Insurance

The life insurance savings business saw outstandings increase +3.9%\* in Q1 2019. The share of unit-linked products in outstandings was 27% at end-March 2019, up +0.7 points vs. Q1 18.

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(1) SG Russia encompasses the entities Rosbank, Delta Credit Bank, Rusfinance Bank, Societe Generale Insurance, ALD Automotive and their consolidated subsidiaries

Personal Protection insurance (premiums up +8%\* vs. Q1 18) maintained a good momentum. Likewise, Property/Casualty insurance continued on its healthy upward trend (premiums up +11.2%\* vs. Q1 18). International activity continued to enjoy strong growth.

The Insurance business posted a good financial performance in Q1 19, with net banking income increasing +2.2% (+2.4%\*) to EUR 231 million in Q1 19. Operating expenses rose 5.1% vs. Q1 18 to EUR 104 million, in conjunction with the Insurance business' commercial expansion ambitions within the Group. The cost to income ratio remained at a low level (45%). The contribution to Group net income was 3.6% higher at EUR 87 million.

### **Financial Services to Corporates**

Financial Services to Corporates maintained a good commercial momentum in Q1 19.

Operational Vehicle Leasing and Fleet Management saw an increase in its vehicle fleet (+9% vs. Q1 18) to 1.68 million vehicles at end-March 2019, primarily through organic growth, demonstrating the effectiveness of ALD's distribution channel diversification strategy.

Equipment Finance's outstanding loans were up +4% (+5%\*) in Q1 19 vs. Q1 18 at EUR 17.9 billion (excluding factoring).

Financial Services to Corporates' net banking income rose +5.3% in Q1 19 to EUR 458 million (+4.6%\*), with Equipment Finance revenues benefiting from an improvement in new business margins. Operating expenses increased +3.9% (+3.0%\*) vs. Q1 18 and amounted to EUR -242 million. The net cost of risk amounted to EUR 17 million, a reasonable level. The contribution to Group net income was EUR 131 million, up +12.9% vs. Q1 18.

## 5. GLOBAL BANKING & INVESTOR SOLUTIONS

<b>In EUR m</b>	<b>Q1 19</b>	<b>Q1 18</b>	<b>Change</b>	
Net banking income	2,239	2,215	+1.1%	-1.8%*
Operating expenses	(2,026)	(2,024)	+0.1%	-1.6%*
<b>Gross operating income</b>	<b>213</b>	<b>191</b>	<b>+11.5%</b>	<b>-3.8%*</b>
Net cost of risk	(42)	27	n/s	n/s
<b>Operating income</b>	<b>171</b>	<b>218</b>	<b>-21.6%</b>	<b>-31.3%*</b>
<b>Reported Group net income</b>	<b>140</b>	<b>166</b>	<b>-15.7%</b>	<b>-26.1%*</b>
RONE	3.4%	4.5%		
<b>Underlying RONE (1)</b>	<b>8.0%</b>	<b>10.2%</b>		

(1) Adjusted for the linearisation of IFRIC 21

Global Banking & Investor Solutions posted net banking income of EUR 2,239 million, up +1.1% vs. Q1 18 (-1.8%\*), driven by the good performance of Financing & Advisory which offset the low level of client activity in Global Markets.

### Adaptation of the strategy

As announced in February 2019 at the time of the publication of the 2018 full-year results, and following the review of Global Banking & Investor Solutions' business portfolio, the Group plans to make certain strategic adjustments in order to improve the structural profitability of its activities while better meeting the expectations of its clients.

Societe Generale will focus its Global Banking model on areas of strength where it has sustainable, differentiating competitive advantages. The Bank's leading position in Europe, the depth of its Corporate client portfolio, as well as its global franchises in equity derivatives and structured financing enable it to establish a position in high added value solutions that capitalise on its expertise in financial engineering, at the heart of its DNA.

The Group will therefore increase the allocation of its resources on the most appropriate client-offering-regional mix for clients and the Bank:

- In Global Markets, the Bank wants to prioritise investment and financing solutions, drawing on its leadership position in equity derivatives and structured products. There are plans to terminate OTC commodity activity and close the proprietary trading subsidiary. The Bank also wants to reorganise and refocus its flow activities (cash and flow derivatives) particularly in the Rate, Credit, Currency and Prime Services businesses in order to make them more profitable.
- In Financing & Advisory, the Bank intends to further align its teams and its offerings in order to pursue its growth plan. Accordingly, two Business Units will be combined into a single unit incorporating client relationship activities and investment banking, as well as financing activities. This new entity will help optimise the client portfolio and the Bank's geographical presence, based on the strength of its coverage and its leadership position in structured financing.
- In Asset & Wealth Management and Securities Services, measures will also be implemented in order to better focus the use of resources on core franchises and reduce costs.
- These businesses' support functions as well as the Group's Corporate Departments will also be adapted in order to include all the adjustments and improve their operational efficiency. In particular, the dedicated Operations and IT functions plan to accelerate their digital

transformation as part of the platform strategy of the Global Banking & Investor Solutions' businesses.

These adjustments will have the following consequences on Global Banking & Investor Solutions' financial aggregates:

- A reduction in RWA of EUR 8 billion for Global Markets and EUR 2 billion for Financing & Advisory, with 75% achieved in 2019 and 25% in 2020.
- EUR 500 million of cost savings, with 20/30% achieved in 2019 and 70/80% in 2020.
- Restructuring costs of around EUR 250 million to EUR 300 million, which will be recognised in 2019.

The contribution to 2018 revenues of activities closed down and scaled back was around EUR 300 million.

## **Global Markets & Investor Services**

**Global Markets & Investor Services'** revenues were down -7.2% in Q1 19 vs. Q1 18, impacted by still challenging market conditions.

At EUR 450 million, the revenues of **Fixed Income, Currencies & Commodities** were down -15.9% in Q1 19 vs. Q1 18. Rate activities were hit by low rate volatility in Europe and weak client activity. This negative impact on revenues was mitigated by the improved performance of Credit and Emerging Market activities.

**Equities and Prime Services** posted net banking income of EUR 624 million in Q1 19, down -5.3% vs. Q1 18, impacted by sluggish commercial activity and volatility. At the same time, structured product portfolios benefited from more stable markets.

**Securities Services'** assets under custody amounted to EUR 4,083 billion at end-March 2019, up +1.8% vs. end-December 2018. Over the same period, assets under administration were 3.3% higher at EUR 629 billion. Revenues rose +11.8% in Q1 19 vs. Q1 18, to EUR 199 million. They included the positive revaluation of SIX securities for EUR 34 million.

## **Financing & Advisory**

**Financing & Advisory's** revenues totalled EUR 711 million in Q1 19, substantially higher (+18.5%) than in Q1 18.

Asset Financing continued to benefit from a good level of origination activity. The natural resources division enjoyed a healthy momentum in energy and large infrastructure project financing, and in the mining and metal industry sector.

Global Transaction Banking's earnings continued to rise in Q1 19 (+10%), with good commercial activity in Cash Management and Correspondent Banking despite the low interest rate environment.

## **Asset and Wealth Management**

The net banking income of the **Asset and Wealth Management** business line totalled EUR 255 million, up +4.9% vs. Q1 18, against the backdrop of a substantial slowdown in client activity.

**Private Banking's** assets under management totalled EUR 113 billion at end-March 2019, stable vs. December 2018. Net banking income was up +11.4% in Q1 19 vs. Q1 18 at EUR 206 million, including the revaluation of SIX securities for EUR 32 million.

**Lyxor's** assets under management came to EUR 121 billion at end-March 2019, 2.5% higher than in December 2018. Revenues totalled EUR 44 million in Q1 19, down -15.4% vs. Q1 18.

### **Operating expenses**

Global Banking & Investor Solutions' operating expenses were stable (-1.6%\*) compared to Q1 18 and amounted to EUR 2,026 million.

The cost to income ratio came to 90.5% (91.4% in Q1 18).

### **Operating income**

Gross operating income totalled EUR 213 million in Q1 19, up +11.5% (-3.8%\*) vs. Q1 18.

The net cost of risk amounted to EUR -42 million (compared to a net cost of risk of EUR +27 million due to provision write-backs in Q1 18).

Global Banking & Investor Solutions' operating income totalled EUR 171 million in Q1 19, down -21.6% (-31.3%\*) vs. Q1 18.

### **Net income**

The pillar's contribution to Group net income amounted to EUR 140 million in Q1 19, a decrease of -15.7% (-26.1%\*). When restated for IFRIC 21, the pillar's RONE stood at 8.0%.

## 6. CORPORATE CENTRE

<b><i>In EUR m</i></b>	<b>Q1 19</b>	<b>Q1 18</b>
Net banking income	(40)	82
Operating expenses	(73)	(46)
<b>Gross operating income</b>	<b>(113)</b>	<b>36</b>
Net cost of risk	0	(10)
Net profits or losses from other assets	(53)	(4)
<b>Reported Group net income</b>	<b>(207)</b>	<b>(15)</b>

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 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 -40 million in Q1 19 vs. EUR +82 million in Q1 18.

Operating expenses totalled EUR -73 million in Q1 19 vs. EUR -46 million in Q1 18.

Gross operating income amounted to EUR -113 million in Q1 19 vs. EUR +36 million in Q1 18. Gross operating income is expected to be around EUR -500 million in 2019.

Net profits or losses from other assets totalled EUR -53 million in Q1 19 and consists of the effect of the application of IFRS 5 as part of the implementation of the Group's refocusing plan. In this respect, the Group recognised a capital loss of EUR -67 million in connection with the announced disposal of SKB in Slovenia. The Group also recognised an overall impact of EUR +14 million following the finalisation of the disposal of its Private Banking activities in Belgium, Societe Generale Albania, Express Bank in Bulgaria and La Banque Postale Financement.

The Corporate Centre's contribution to Group net income was EUR -207 million in Q1 19 vs. EUR -15 million in Q1 18.



## 7. CONCLUSION

Q1 2019 provided further evidence of the healthy momentum in the businesses, driven primarily by the strong growth in International Retail Banking & Financial Services and Financing & Advisory. French Retail Banking proved resilient, despite the ongoing unfavourable interest rate environment, and while continuing with its transformation. Global Banking & Investor Solutions applied a rigorously disciplined approach to the management of its costs and embarked on the adaptation of its operational set-up. The initial effects are already visible, with a reduction in Global Markets' risk-weighted assets.

The refocusing programme is being carried out under favourable conditions, with the finalisation of several disposals for a total impact on the CET1 ratio of +20 basis points in Q1 2019 and the announcement of the disposal of SKB in Slovenia representing the equivalent of around +7 basis points at the time of its finalisation.

The Group also reaffirmed its intention to support a proactive and responsible energy transition policy. It was ranked 2<sup>nd</sup> in renewable energy financing in the EMEA region in 2018<sup>(1)</sup>.

Overall, the performance of the businesses proved resilient in Q1 19 in an environment that remained unfavourable for European banks. Underlying Group net income amounted to EUR 1,010 million and underlying RONE stood at 8.4% in Q1 19. There was a substantial increase in the CET1 ratio at 11.7%<sup>(2)</sup>, confirming that the Group is well on track to achieve its target of a CET1 ratio of 12% in 2020.

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(1) Dealogic ranking of Financial Advisers in renewable energy financing in the EMEA region in 2018

(2) Taking into account the assumption of a 50% subscription rate for the option of a dividend payment in shares subject to approval by the Ordinary General Meeting on May 21st, 2019 and a pay-out ratio of 50% for Q1 19 earnings

## 8. 2019/2020 FINANCIAL CALENDAR

### *2019/2020 Financial communication calendar*

May 21 <sup>st</sup> , 2019	General Meeting of Shareholders
August 1 <sup>st</sup> , 2019	Second quarter and first half 2019 results
November 6 <sup>th</sup> , 2019	Third quarter and nine-month 2019 results
February 6 <sup>th</sup> , 2020	Fourth quarter and FY 2019 results
May 6 <sup>th</sup> , 2020	First quarter 2020 results
August 3 <sup>rd</sup> , 2020	Second quarter and first half 2020 results
November 5 <sup>th</sup> , 2020	Third quarter and nine-month 2020 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 AFTER TAX BY CORE BUSINESS

In EURm	Q1 19	Q1 18	Change
<b>French Retail Banking</b>	234	270	-13.3%
<b>International Retail Banking &amp; Financial Services</b>	464	429	+8.2%
<b>Global Banking &amp; Investor Solutions</b>	140	166	-15.7%
<b>Core Businesses</b>	838	865	-3.1%
<b>Corporate Centre</b>	(207)	(15)	n/s
<b>Group</b>	631	850	-25.8%

## CONSOLIDATED BALANCE SHEET

<b>(ASSETS - in millions of euros)</b>	<b>31.03.2019</b>	<b>31.12.2018</b>
Central banks	98,301	96,585
Financial assets at fair value through profit or loss	406,414	365,550
Hedging derivatives	13,998	11,899
Financial assets measured at fair value through other comprehensive income	52,361	50,026
Securities at amortised cost	12,353	12,026
Due from banks at amortised cost	66,528	60,588
Customer loans at amortised cost	436,798	447,229
Revaluation differences on portfolios hedged against interest rate risk	187	338
Investment of insurance activities	152,898	146,768
Tax assets	5,725	5,819
Other assets	72,944	67,446
Non-current assets held for sale (1)	11,116	13,502
Investments accounted for using the equity method	260	249
Tangible and intangible assets (1)	29,199	26,751
Goodwill	4,562	4,652
<b>Total</b>	<b>1,363,644</b>	<b>1,309,428</b>

(1) At 1 January 2019, the first application of IFRS 16 results in the recognition of EUR 2,050 million of assets in respect of Rights of use recorded in Tangible and intangible fixed assets for EUR 2,008 million and Non-current assets held for sale for EUR 42 million.

<b>(LIABILITIES - in millions of euros)</b>	<b>31.03.2019</b>	<b>31.12.2018</b>
Central banks	8,307	5,721
Financial liabilities at fair value through profit or loss	390,915	363,083
Hedging derivatives	7,515	5,993
Debt securities issued	126,949	116,339
Due to banks	96,337	94,706
Customer deposits	409,856	416,818
Revaluation differences on portfolios hedged against interest rate risk	6,181	5,257
Tax liabilities	1,209	1,157
Other liabilities (1)	87,106	76,629
Non-current liabilities held for sale (1)	8,465	10,454
Liabilities related to insurance activities contracts	135,294	129,543
Provisions	4,547	4,605
Subordinated debts	14,247	13,314
<b>Total liabilities</b>	<b>1,296,928</b>	<b>1,243,619</b>
<b>SHAREHOLDERS' EQUITY</b>		
<b>Shareholders' equity, Group share</b>		
Issued common stocks, equity instruments and capital reserves	29,843	29,856
Retained earnings	32,032	28,342
Net income	631	3,864
<b>Sub-total</b>	<b>62,506</b>	<b>62,062</b>
Unrealised or deferred capital gains and losses	(676)	(1,036)
<b>Sub-total equity, Group share</b>	<b>61,830</b>	<b>61,026</b>
Non-controlling interests	4,886	4,783
<b>Total equity</b>	<b>66,716</b>	<b>65,809</b>
<b>Total</b>	<b>1,363,644</b>	<b>1,309,428</b>

NB. Customer loans include lease financing.

(1) At 1 January 2019, the first application of IFRS 16 results in the recognition of EUR 2,050 million of liabilities in respect of Lease liabilities recorded in Other liabilities for EUR 2,008 million and Non-current liabilities held for sale for EUR 42 million.

## **10. APPENDIX 2: METHODOLOGY**

### **1 - The Group's consolidated results as at March 31<sup>st</sup>, 2019 were examined by the Board of Directors on May 2<sup>nd</sup>, 2019.**

The financial information presented in respect of Q1 2019 has been prepared in accordance with IFRS as adopted in the European Union and applicable at that date. This information has not been audited.

### **2 – Net banking income**

The pillars' net banking income is defined on page 40 of Societe Generale's 2019 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 31<sup>st</sup>, 2018 (pages 416 et seq. of Societe Generale's 2019 Registration Document). The term "costs" is also used to refer to Operating Expenses.

The Cost/Income Ratio is defined on page 40 of Societe Generale's 2019 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 19 (in EUR m)	Net Banking Income	Operating Expenses	Net profit or losses from other assets	Group net income
<b>Reported</b>	<b>6,191</b>	<b>(4,789)</b>	<b>(51)</b>	<b>631</b>
<i>(+) IFRIC 21 linearisation</i>		444		304
<i>(-) IFRS 5 effect on Group refocusing plan</i>			(53)	(75)
<b>Underlying</b>	<b>6,191</b>	<b>(4,345)</b>	<b>2</b>	<b>1,010</b>

Q1 18 (in EUR m)	Net Banking Income	Operating Expenses	Net profit or losses from other assets	Group net income
<b>Reported</b>	<b>6,294</b>	<b>(4,729)</b>	<b>1</b>	<b>850</b>
<i>(+) IFRIC 21 linearisation</i>		506		354
<b>Underlying</b>	<b>6,294</b>	<b>(4,223)</b>	<b>1</b>	<b>1,204</b>

## 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 42 and 562 of Societe Generale's 2019 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 19	Q1 18
<b>French Retail Banking</b>	Net Cost Of Risk	94	134
	Gross loan Outstandings	191,422	185,209
	<b>Cost of Risk in bp</b>	<b>20</b>	<b>29</b>
<b>International Retail Banking &amp; Financial Services</b>	Net Cost Of Risk	128	91
	Gross loan Outstandings	129,861	131,630
	<b>Cost of Risk in bp</b>	<b>39</b>	<b>28</b>
<b>Global Banking &amp; Investor Solutions</b>	Net Cost Of Risk	43	(27)
	Gross loan Outstandings	164,811	147,714
	<b>Cost of Risk in bp</b>	<b>10</b>	<b>(7)</b>
<b>Corporate Centre</b>	Net Cost Of Risk	(0)	9
	Gross loan Outstandings	9,248	7,085
	<b>Cost of Risk in bp</b>	<b>(1)</b>	<b>52</b>
<b>Societe Generale Group</b>	Net Cost Of Risk	264	208
	Gross loan Outstandings	495,341	471,637
	<b>Cost of Risk in bp</b>	<b>21</b>	<b>18</b>

**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 42 and 43 of Societe Generale's 2019 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 43 of Societe Generale's 2019 Registration Document.

Group net income used for the ratio numerator is book Group net income adjusted for "interest, net of tax payable to holders of 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. 9). 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 19	Q1 18
<b>Shareholders' equity Group share</b>	<b>61,830</b>	<b>58,925</b>
Deeply subordinated notes	(9,473)	(8,362)
Undated subordinated notes	(283)	(263)
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	(37)	(218)
OCI excluding conversion reserves	(472)	(525)
Dividend provision	(2,025)	(2,136)
<b>ROE equity end-of-period</b>	<b>49,540</b>	<b>47,421</b>
<b>Average ROTE equity</b>	<b>49,434</b>	<b>47,523</b>
Average Goodwill	(4,701)	(5,158)
Average Intangible Assets	(2,193)	(1,966)
<b>Average ROTE equity</b>	<b>42,540</b>	<b>40,399</b>
<b>Group net income (a)</b>	<b>631</b>	<b>850</b>
<b>Underlying Group net income (b)</b>	<b>1,010</b>	<b>1,204</b>
Interest, net of tax on deeply subordinated notes and undated subordinated notes (c)	(110)	(102)
Cancellation of goodwill impairment (d)	67	
<b>Adjusted Group net Income (e) = (a)+ (c)+(d)</b>	<b>588</b>	<b>748</b>
<b>Adjusted Underlying Group net Income (f)=(b)+(c)</b>	<b>900</b>	<b>1,102</b>
<b>Average ROTE equity (g)</b>	<b>42,540</b>	<b>40,399</b>
ROTE [quarter: (4*e/g)]	5.5%	7.4%
<b>Average ROTE equity (underlying) (h)</b>	<b>42,730</b>	<b>40,576</b>
Underlying ROTE [quarter: (4*f/h)]	+8.4%	10.9%

## RONE calculation: Average capital allocated to Core Businesses (in EURm)

In EURm	Q1 19	Q1 18	Change
<b>French Retail Banking</b>	<b>11,257</b>	11,387	-1.1%
<b>International Retail Banking &amp; Financial Services</b>	<b>11,617</b>	11,400	+1.9%
<b>Global Banking &amp; Investor Solutions</b>	<b>16,582</b>	14,742	+12.5%
<b>Core Businesses</b>	<b>39,456</b>	37,529	+5.1%
<b>Corporate Centre</b>	<b>9,978</b>	9,994	-0.2%
<b>Group</b>	<b>49,434</b>	47,523	+4.0%



## 8 – Net assets and tangible net assets

Net assets and tangible net assets are defined in the methodology, page 45 of the Group's 2019 Registration Document. The items used to calculate them are presented below.

End of period	Q1 19	2018	2017
<b>Shareholders' equity Group share</b>	<b>61,830</b>	<b>61,026</b>	<b>59,373</b>
Deeply subordinated notes	(9,473)	(9,330)	(8,520)
Undated subordinated notes	(283)	(278)	(269)
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	(37)	(14)	(165)
Book value of own shares in trading portfolio	550	423	223
<b>Net Asset Value</b>	<b>52,587</b>	<b>51,827</b>	<b>50,642</b>
Goodwill	(4,544)	(4,860)	(5,154)
Intangible Asset	(2,162)	(2,224)	(1,940)
<b>Net Tangible Asset Value</b>	<b>45,881</b>	<b>44,743</b>	<b>43,548</b>
<b>Number of shares used to calculate NAPS**</b>	<b>804,211</b>	<b>801,942</b>	<b>801,067</b>
<b>Net Asset Value per Share</b>	<b>65.4</b>	<b>64.6</b>	<b>63.2</b>
<b>Net Tangible Asset Value per Share</b>	<b>57.1</b>	<b>55.8</b>	<b>54.4</b>

**\*\*** The number of shares considered is the number of ordinary shares outstanding as at March 31<sup>st</sup>, 2019, 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 44 of Societe Generale's 2019 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. As specified on page 44 of Societe Generale's 2019 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:

<b>Average number of shares (thousands)</b>	<b>Q1 19</b>	<b>2018</b>	<b>2017</b>
<b>Existing shares</b>	<b>807,918</b>	<b>807,918</b>	<b>807,754</b>
<b>Deductions</b>			
Shares allocated to cover stock option plans and free shares awarded to staff	4,467	5,335	4,961
Other own shares and treasury shares	374	842	2,198
<b>Number of shares used to calculate EPS**</b>	<b>803,077</b>	<b>801,741</b>	<b>800,596</b>
<b>Group net Income</b>	<b>631</b>	<b>3,864</b>	<b>2,806</b>
Interest, net of tax on deeply subordinated notes and undated subordinated notes	(110)	(462)	(466)
Capital gain net of tax on partial buybacks			
<b>Adjusted Group net income</b>	<b>521</b>	<b>3,402</b>	<b>2,340</b>
<b>EPS (in EUR)</b>	<b>0.65</b>	<b>4.24</b>	<b>2.92</b>
<b>Underlying EPS* (in EUR)</b>	<b>1.12</b>	<b>5.00</b>	<b>5.03</b>

\* Excluding exceptional items and including linearisation of the IFRIC 21 effect.

\*\* The number of shares considered is the number of ordinary shares outstanding as at March 31<sup>st</sup>, 2019, 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 fully-loaded solvency ratios are presented pro forma for current earnings, net of dividends, for the current financial year, unless specified otherwise. When there is reference to phased-in ratios, these do not include the earnings for the current financial year, unless specified otherwise. The leverage ratio is calculated according to applicable CRR/CRD4 rules including the provisions of the delegated act of October 2014.

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](http://www.societegenerale.com) in the "Investor" section.

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## 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 149,000 members of staff in 67 countries and supports on a daily basis 31 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, Cr dit 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.

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