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The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the related notes included in the Accountants’ Report in Appendix IA, in “Our Business.” This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results and the timing of selected events could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set out under “Risk Factors” and elsewhere in this document. We have prepared our consolidated financial statements in accordance with U.S. GAAP. Our fiscal year ends on December 31 and references to fiscal years 2018, 2019 and 2020 are to the fiscal years ended December 31, 2018, 2019 and 2020, respectively.

Overview

We are a leading technology company with world-class artificial intelligence (AI) capabilities. We were founded to enable people to quickly find relevant information on the Internet, amidst the huge volume of information generated daily. As the gateway to the Internet, we connect our users to a large information and knowledge-centric content and services ecosystem through our open search-plus-feed platform. Years of tagging, understanding and intelligently processing all forms of content on the Internet with AI—text, images and videos—has helped us build and refine our unique AI capabilities and develop Baidu Brain, our core AI technology engine. Baidu Brain in turn has enabled us to further develop leading AI technologies and commercialize them through products and services for consumers, enterprises and the public sector.

Our operations are primarily conducted in China, and revenues are primarily generated from China. Our total revenues increased by 5% from RMB102.3 billion in 2018 to RMB107.4 billion in 2019. Our total revenues were RMB107.1 billion (US\$16.4 billion) in 2020, which was basically flat from 2019. Our operating profit decreased by 59% from RMB15.5 billion in 2018 to RMB6.3 billion in 2019, and increased by 127% from RMB6.3 billion in 2019 to RMB14.3 billion (US\$2.2 billion) in 2020. Net income attributable to Baidu, Inc. decreased by 93% from RMB27.6 billion in 2018 to RMB2.1 billion in 2019, and increased by 992% from RMB2.1 billion in 2019 to RMB22.5 billion (US\$3.4 billion) in 2020. Net income attributed to Baidu, Inc. in 2019 included a non-cash impairment loss of RMB8.9 billion from investment in Trip.com.

Rule 13.46(2) of the Hong Kong Listing Rules requires an overseas issuer to send an annual report or a summary financial report within four months after the end of the financial year to which the report relates. As an issuer seeking a listing as a Grandfathered Greater China Issuer pursuant to Chapter 19C of the Hong Kong Listing Rules, we are not subject to the disclosure requirements under notes 4(a) and (b) to Rule 13.46(2) of the Hong Kong Listing Rules. As this document already includes the financial information of the Company for the year ended December 31, 2020, the Company will not separately prepare and send an annual report to its shareholders for the year ended December 31, 2020, which will not be in breach of its constitutional documents, laws and regulations of the Cayman Islands or other regulatory requirements.

Selected Statements of Operations Items

Revenues

Revenue Generation

Baidu Core. Baidu Core revenues primarily comprise of (i) auction-based P4P online marketing services that include search and feed online marketing services; (ii) other online marketing services,

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including display advertisement, based on performance criteria other than CPC; (iii) cloud services and solutions; (iv) non-marketing consumer-facing services such as membership, live streaming and online games; (v) intelligent driving; and (vi) smart devices and services. We expect Baidu Core to continually earn a majority of our revenues.

A majority of Baidu Core’s revenues are derived from P4P services. Our P4P platform is an online marketplace that introduces internet search users to customers, who pay us a fee based on click-throughs for priority placement of their links in the search results. We also provide feed online marketing services to our customers. Our feed platform helps customers target relevant feed users, and customers pay us based on a CPC basis or advertisement displays of their products. In addition, we provide our customers with other performance-based and display-based online marketing services.

Apart from the online marketing services, we derive revenue for Baidu Core by providing products and services ranging from cloud services and solutions, non-marketing consumer-facing services, intelligent driving and smart devices and services.

iQIYI. iQIYI is an innovative market-leading online entertainment service in China. iQIYI’s platform features iQIYI original content, as well as a comprehensive library of other professionally produced content (PPC), professional user generated content (PUGC) and user-generated content. iQIYI derives a majority of its revenues from membership services and online marketing services.

iQIYI offers membership packages to provide its members with (i) access to streaming of a library of premium content, (ii) certain commercial skipping and other viewing privileges, (iii) merchandise selection and privilege, and (iv) higher community status in iQIYI Paopao social platform. Most of iQIYI’s online marketing services are in the form of brand advertising.

Operating Costs and Expenses

Our operating costs and expenses consist of cost of revenues, selling, general and administrative expenses, and research and development expenses. Share-based compensation expenses are allocated among these three categories, based on the nature of the work of the employees who have received share-based compensation.

Cost of Revenues

Our cost of revenues primarily consist of content costs, traffic acquisition costs, depreciation costs, costs of goods sold, bandwidth costs and other cost of revenues.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses primarily consist of promotional and marketing expenses, salaries and benefits for our sales, marketing, general and administrative personnel, and legal, accounting and other professional services fees.

Research and Development Expenses

Research and development expenses primarily consist of salaries and benefits for research and development personnel. We expense research and development costs as they are incurred, except for capitalized software development costs that fulfill the capitalization criteria under Accounting Standards Codification (“ASC”).

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Taxation

Cayman Islands and British Virgin Islands

We are not subject to income or capital gain tax under the current laws of the Cayman Islands and the British Virgin Islands. Additionally, upon payments of dividends by us, no Cayman Islands withholding tax will be imposed.

Hong Kong

Subsidiaries in Hong Kong are subject to the uniform tax rate of 16.5% and foreign-derived income is exempted from income tax. There is no withholding tax in Hong Kong on remittance of dividends.

Japan

As a result of the Japanese tax regulations amendments, the effective income tax rates are approximately 31%, 31% and 31% for the years ended December 31, 2018, 2019 and 2020, respectively.

PRC Enterprise Income Tax

Effective from January 1, 2008 and amended on December 29, 2018, the PRC’s statutory enterprise income tax, or EIT, rate is 25%. An enterprise may benefit from a preferential tax rate of 15% under the EIT Law if it qualifies as a “High and New Technology Enterprise” strongly supported by the state. A “High and New Technology Enterprise” certificate is effective for a period of three years. A number of our PRC subsidiaries and consolidated affiliated entities, such as Baidu Netcom, obtained the “High and New Technology Enterprise” certificates. The related tax holiday under such “High and New Technology Enterprise” certificates of these entities will expire in 2022 and 2023.

If any entity fails to maintain the “High and New Technology Enterprise” qualification under the EIT Law, its tax rate will increase, which could have a material and adverse effect on our results of operations and financial position. Historically, all of the PRC subsidiaries and consolidated affiliated entities mentioned above successfully re-applied for the certificates when the prior ones expired.

An enterprise may benefit from a tax exemption or preferential tax rate of 10% under the EIT law if it qualifies as a “Key Software Enterprise.” Enterprises wishing to enjoy the “Key Software Enterprise” status will be subject to relevant governmental authorities’ assessment each year as to whether they are entitled to the tax exemption or preferential tax rate of 10%. Due to the “Key Software Enterprise” status, Baidu Online was entitled to a preferential income tax rate of 10% from 2010 to 2019, so was Baidu China from 2015 to 2019, and Baidu International from 2016 to 2019. The “Key Software Enterprise” status of Baidu Online, Baidu China and Baidu International for 2020 will be filed with tax authorities before May 2021 and will be subject to relevant governmental authorities’ assessment.

If our PRC subsidiaries or consolidated affiliated entities that have enjoyed preferential tax treatment no longer qualify for the preferential treatment, we will consider available options under applicable law that would enable us to qualify for alternative preferential tax treatment. To the extent we are unable to offset the impact of the expiration of existing preferential tax treatment with new tax exemptions, tax incentives or other tax benefits, the expiration of existing preferential tax treatment may cause our effective tax rate to increase. The amount of income tax payable by our PRC subsidiaries and consolidated affiliated entities in the future will depend on various factors, including, among other things, the results of operations and taxable income of, and the statutory tax rate applicable to, each of the entities. Our effective tax rate depends partially on the extent of the relative contribution of each of our subsidiaries and consolidated affiliated entities to our consolidated taxable income.

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Withholding Tax

Under the EIT Law and its implementation rules, dividends, interests, rent or royalties payable by a foreign-invested enterprise, such as our PRC subsidiaries, to any of its non-resident enterprise investors, and proceeds from any such non-resident enterprise investor’s disposition of assets (after deducting the net value of such assets) are subject to the EIT at the rate of 10%, namely withholding tax, unless the non-resident enterprise investor’s jurisdiction of incorporation has a tax treaty or arrangement with China that provides for a reduced withholding tax rate or an exemption from withholding tax.

The British Virgin Islands, where Baidu Holdings Limited, the sole shareholder of certain of our PRC subsidiaries such as Baidu Online, was incorporated, does not have such a tax treaty with China.

Hong Kong, where Baidu (Hong Kong) Limited, our wholly owned subsidiary and the sole shareholder of certain of our PRC subsidiaries such as Baidu Times and Baidu China, was incorporated, has a tax arrangement with China that provides for a lower withholding tax rate of 5% on dividends subject to certain conditions and requirements, such as the requirement that the Hong Kong resident enterprise own at least 25% of the PRC enterprise distributing the dividend at all times within the 12-month period immediately preceding the distribution of dividends and be a “beneficial owner” of the dividends.

In 2020, certain of our PRC subsidiaries have declared and distributed profits earned to Baidu (Hong Kong) Limited, the dividend payments are subject to withholding tax. We have made tax provisions based on the corresponding tax rate. If our PRC subsidiaries further declare and distribute profits earned after January 1, 2008 to us in the future, the dividend payments will be subject to withholding tax, which will increase our tax liability and reduce the amount of cash available to our company. For the potential distributable profits to be distributed to our qualified Hong Kong incorporated subsidiary, the deferred tax liabilities are accrued at a 5% withholding tax rate. For more information on related risks, please see “Risk Factors—Risks Related to Doing Business in China—If our PRC subsidiaries declare and distribute dividends to their respective offshore parent companies, we will be required to pay more taxes, which could have a material and adverse effect on our result of operations.”

Tax Residence

Under the EIT Law and its implementation rules, an enterprise established outside of the PRC with “de facto management body” within the PRC is considered a resident enterprise and will be subject to the EIT at the rate of 25% on its worldwide income. The term “de facto management body” refers to “the establishment that exercises substantial and overall management and control over the production, business, personnel, accounts and properties of an enterprise.”

If our offshore entities are deemed PRC resident enterprises, these entities may be subject to the EIT at the rate of 25% on their global incomes, except that the dividends distributed by our PRC subsidiaries may be exempt from the EIT to the extent such dividends are deemed “dividends among qualified resident enterprises.” For more information on related risks, please see “Risk Factors—Risks Related to Doing Business in China—We may be deemed a PRC resident enterprise under the EIT Law, which could subject us to PRC taxation on our global income, and which may have a material and adverse effect on our results of operations.”

Should our offshore entities be deemed as PRC resident enterprises, such changes could significantly increase our tax burden and materially and adversely affect our cash flow and profitability.

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PRC VAT in Lieu of Business Tax

All of our PRC entities have been subject to VAT since August 1, 2013. These entities are required to pay VAT instead of business tax for services that are deemed by the relevant tax authorities to be within the pilot industries at a rate of 6%. In addition, cultural business construction fee is imposed at the rate of 3% on revenues derived from our advertisement distribution services, and we are entitled to a 50% reduction of cultural business construction fee from July 1, 2019 to December 31, 2024 and an exemption of cultural business construction fee from January 1, 2020 to December 31, 2020.

PRC Urban Maintenance and Construction Tax and Education Surcharge

Any entity, foreign-invested or purely domestic, or individual that is subject to consumption tax, VAT and business tax is also required to pay PRC urban maintenance and construction tax. The rates of urban maintenance and construction tax are 7%, 5% or 1% of the amount of consumption tax, VAT and business tax actually paid depending on where the taxpayer is located. All entities and individuals who pay consumption tax, VAT and business tax are also required to pay education surcharge at a rate of 3%, and local education surcharges at a rate of 2%, of the amount of VAT, business tax and consumption tax actually paid.

Impact of COVID-19 on Our Operations

Our results of operations have been, and could continue to be adversely, and may be materially, affected, to the extent that the COVID-19 or any other epidemic harms the Chinese and global economy in general. Any potential impact to our results will depend on, to a large extent, future developments and new information that may emerge regarding the duration and severity of the COVID-19 and the actions taken by government authorities and other entities to contain the COVID-19 or treat its impact, almost all of which are beyond our control.

The potential downturn brought by and the duration of the COVID-19 pandemic may be difficult to assess or predict where actual effects will depend on many factors beyond our control. The extent to which the COVID-19 pandemic impacts our long-term results remains uncertain, and we are closely monitoring its impact on us. During the year ended December 31, 2020, our operations have been significantly affected by the COVID-19 pandemic. Our online marketing revenues declined compared to the prior period mainly due to weakness in online marketing demand as our customers in certain industries are negatively impacted by COVID-19. We have also provided additional allowance for credit losses for accounts receivable and contract assets, recognized impairment charges on our long-term investments and content assets, and recorded loss from equity method investments in the year ended December 31, 2020, due to the impact of COVID-19 and other factors. In addition, increased market volatility has contributed to larger fluctuations in the valuation of our equity investments. There are still significant uncertainties of COVID-19's future impact, and the extent of the impact will depend on a number of factors, including the duration and severity of COVID-19, possibility of new waves in China and other countries, the development and progress of distribution of COVID-19 vaccine and other medical treatment, the potential change in user behavior, especially on internet usage due to the prolonged impact of COVID-19, the actions taken by government authorities, particularly to contain the outbreak, stimulate the economy to improve business condition especially for SMEs, almost all of which are beyond our control. As a result, certain of our estimates and assumptions, including the allowance for credit losses, the valuation of certain debt and equity investments, long-term investments, content assets and long-lived assets subject to impairment assessments, require significant judgments and carry a higher degree of variabilities and volatilities that could result in material changes to our current estimates in future periods. See also “Risk Factors—Risks Related to

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Our Business and Industry—We face risks related to health epidemics, severe weather conditions and other outbreaks.”

Results of Operations

The following table sets forth a summary of our consolidated results of operations for the periods indicated. The period-to-period comparisons of results of operations should not be relied upon as indicative of future performance.

	Year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in millions)			
Revenues:				
Online marketing services	81,912	78,093	72,840	11,163
Others	20,365	29,320	34,234	5,247
Total revenues	102,277	107,413	107,074	16,410
Operating costs and expenses⁽¹⁾:				
Cost of revenues	51,744	62,850	55,158	8,454
Selling, general and administrative	19,231	19,910	18,063	2,769
Research and development	15,772	18,346	19,513	2,989
Total operating costs and expenses	86,747	101,106	92,734	14,212
Operating profit	15,530	6,307	14,340	2,198
Total other income (loss), net	11,795	(6,647)	8,750	1,341
Income (loss) before income taxes	27,325	(340)	23,090	3,539
Income taxes	4,743	1,948	4,064	623
Net income (loss)	22,582	(2,288)	19,026	2,916
Less: Net loss attributable to non-controlling interests	(4,991)	(4,345)	(3,446)	(528)
Net income attributable to Baidu, Inc.	27,573	2,057	22,472	3,444

Note:

(1) Share-based compensation expenses are allocated in operating costs and expenses as follows:

Cost of revenues	224	327	360	55
Selling, general and administrative	1,725	1,768	1,897	290
Research and development	2,727	3,531	4,471	686
Total	4,676	5,626	6,728	1,031

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Consolidated revenues. Our total revenues in 2020 were RMB107.1 billion (US\$16.4 billion), which was basically flat from 2019.

Our online marketing revenues for Baidu Core in 2020 were RMB66.3 billion (US\$10.2 billion), decreasing by 5% from 2019.

Our online marketing revenues for iQIYI in 2020 were RMB6.8 billion (US\$1.0 billion), decreasing by 18% from 2019.

Other revenues in 2020 were RMB34.2 billion (US\$5.2 billion), increasing by 17% from 2019.

For a detailed description, see “Segment Revenues.”

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Consolidated operating costs and expenses. Our total operating costs and expenses decreased by RMB8.4 billion, or 8%, from RMB101.1 billion 2019 to RMB 92.7 billion (US\$14.2 billion) in 2020.

Cost of revenues. Our cost of revenues decreased by RMB7.7 billion from RMB62.9 billion in 2019 to RMB55.2 billion (US\$8.5 billion) in 2020, primarily due to the following factors:

- A decrease of RMB2.7 billion in traffic acquisition costs, which reflected decreasing union revenues, as we focused on growing in-app search and optimizing profitability over union revenue growth.
- A decrease of RMB1.7 billion in sales tax and surcharges, which resulted from an exemption of cultural business construction fee for 2020.
- A decrease of RMB1.6 billion in content cost, which related to less recorded expense of produced content, more shorter-length content with less total costs to satisfy diversified users demand, as well as revisions to accounting estimates of future viewership consumption patterns and useful lives of content assets.

Selling, general and administrative expenses. Our selling, general and administrative expenses decreased by RMB1.8 billion from RMB19.9 billion in 2019 to RMB18.1 billion (US\$2.8 billion) in 2020, primarily due to a decrease of RMB2.1 billion in channel spending and promotional marketing which reflected our effort to optimize marketing spending during COVID-19 pandemic, especially for the first half of 2020.

Research and development expenses. Our research and development expenses increased by RMB1.2 billion from RMB18.3 billion in 2019 to RMB19.5 billion (US\$3.0 billion) in 2020, primarily due to an increase of RMB1.5 billion in personnel-related expenses, which was in line with the growth in research and development headcount as we continue to strengthen our research and development effort.

Operating profit. As a result of the foregoing, we generated an operating profit of RMB14.3 billion (US\$2.2 billion) in 2020, a 127% increase from RMB6.3 billion in 2019.

Total other income (loss), net. Our total other income, net was RMB8.8 billion (US\$1.3 billion) in 2020, which included fair value gain of RMB11.6 billion from long-term investments. Total other loss, net was RMB6.6 billion for 2019, which included a non-cash impairment loss of RMB8.9 billion from investment in Trip.com.

Income taxes. Our income tax expenses was RMB4.1 billion (US\$623 million) in 2020, compared to RMB1.9 billion in 2019.

Net income attributable to Baidu, Inc. As a result of the foregoing, net income attributable to Baidu, Inc. increased from RMB2.1 billion in 2019 to RMB22.5 billion (US\$3.4 billion) in 2020.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Consolidated revenues. Our total revenues in 2019 were RMB107.4 billion, growing by 5% from 2018.

Online marketing revenues for Baidu Core in 2019 were RMB70.0 billion decreasing by 4% from 2018.

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Online marketing revenues for iQIYI in 2019 were RMB8.3 billion, decreasing by 11% from 2018.

Other revenues in 2019 were RMB29.3 billion, increasing by 44% from 2018.

For a detailed description, see “Segment Revenues.”

Consolidated operating costs and expenses. Our consolidated operating costs and expenses in 2019 were RMB101.1 billion, increasing by RMB14.4 billion, or 17%, from RMB86.7 billion 2018. This increase was primarily due to the expansion of our business.

Cost of revenues. Our cost of revenues in 2019 were RMB62.9 billion, increasing by RMB11.2 billion from RMB51.7 billion 2018, primarily due to the following factors:

- An increase of RMB3.3 billion in depreciation and bandwidth costs, resulted from increased investment in infrastructure.
- An increase of RMB3.1 billion in cost of goods sold, which was in line with the growth in sales of Xiaodu smart devices.
- An increase of RMB2.0 billion in content costs, resulted from iQIYI’s higher content costs recorded relating to licensed copyrights and produced content as iQIYI continued to invest in comprehensive and diversified content library.
- An increase of RMB1.5 billion in traffic acquisition costs, resulted from increasing TAC prices.

Selling, general and administrative expenses. Our selling, general and administrative expenses increased slightly by RMB679 million from RMB19.2 billion in 2018 to RMB19.9 billion in 2019.

Research and Development Expenses. Our research and development expenses increased by RMB2.5 billion from RMB15.8 billion in 2018 to RMB18.3 billion in 2019, primarily due to an increase of RMB2.3 billion in research and development personnel related expenses, which was in line with the growth in research and development headcount.

Operating profit. As a result of the foregoing, we generated an operating profit of RMB6.3 billion in 2019, a 59% decrease from RMB15.5 billion in 2018.

Total other income (loss), net. Our total other loss, net was RMB6.6 billion in 2019, compared to total other income, net of RMB11.8 billion in 2018. Total other loss, net in 2019 mainly comprises non-cash impairment loss on equity investment arising from other-than-temporary decline. In 2019, the market value of the shares of Trip.com declined, and the continuing low market price caused us to recognize a non-cash impairment loss of RMB8.9 billion in the third quarter of 2019. In October 2019, we sold a portion of our holding in Trip.com, reducing the interest of outstanding shares of Trip.com from 19% to 12%. Total other income, net in 2018 mainly comprises gains from the disposal of Du Xiaoman (financial services business) and fair value gains on private company equity investments without readily determinable fair values in accordance with ASC 321.

Income taxes. Our income tax expense was RMB1.9 billion in 2019, a 59% decrease from RMB4.7 billion in 2018. The decrease in income tax expense was mainly due to lower profit before income tax from Baidu Core.

Net loss attributable to non-controlling interests. Net loss attributable to non-controlling interests was RMB4.3 billion in 2019, compared to RMB5.0 billion in 2018.

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Net income attributable to Baidu, Inc. As a result of the foregoing, net income attributable to Baidu, Inc. decreased from RMB27.6 billion in 2018 to RMB2.1 billion in 2019.

Segment Revenues

The following table sets forth our revenues by segment and the year-over-year change rate for the periods indicated, with each segment revenues including inter-segment revenues:

	Year ended December 31,					
	2018	2019		2020		
	RMB	RMB	YoY%	RMB	US\$	YoY%
	(In millions, except percentages)					
Baidu Core:						
Online marketing services	72,645	70,038	(4)	66,283	10,158	(5)
Cloud services	3,005	6,370	112	9,173	1,406	44
Interest income earned from provision of financial services	1,724	—	(100)	—	—	—
Others	897	3,303	268	3,228	495	(2)
Subtotal	78,271	79,711	2	78,684	12,059	(1)
iQIYI:						
Online advertising services	9,329	8,271	(11)	6,822	1,046	(18)
Membership services	10,623	14,436	36	16,491	2,527	14
Content distribution	2,163	2,544	18	2,660	408	5
Others	2,874	3,743	30	3,734	572	(0)
Subtotal	24,989	28,994	16	29,707	4,553	2
Intersegment eliminations	(983)	(1,292)	31	(1,317)	(202)	2
Total revenue	102,277	107,413	5	107,074	16,410	(0)

Baidu Core

Baidu Core revenue was RMB78.7 billion (US\$12.1 billion) in 2020, decreasing by RMB1.0 billion, or 1%, from RMB79.7 billion in 2019.

Our online marketing revenues for Baidu Core in 2020 were RMB66.3 billion (US\$10.2 billion), decreasing by RMB3.7 billion, or 5%, compared to RMB70.0 billion in 2019, mainly due to weakness in online marketing services demand, as our customers in industries that were negatively impacted by the COVID-19 outbreak and other factors, including healthcare, franchising, travel, financial services and education, reduced their budgets on online marketing.

The number of our active online marketing customers decreased from approximately 528,000 in 2019 to approximately 505,000 in 2020, while the average revenue per customer decreased slightly from approximately RMB132,700 in 2019 to approximately RMB131,300 (US\$20,120) in 2020. The decrease of our active online marketing customers was primarily due to quarantines, travel restrictions, and the temporary closure of businesses and facilities and resulting impact to general economy brought by the COVID-19 pandemic.

Revenue from Baidu cloud services, interest income earned from provision of financial services, and others are included in “Other revenue” in the statements of comprehensive income (loss).

Baidu Core’s cloud services revenue in 2020 were RMB9.2 billion (US\$1.4 billion), increasing by RMB2.8 billion, or 44%, compared to RMB6.4 billion in 2019, due to the rapid adoption of our cloud service and products.

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Baidu Core’s other revenues were RMB3.2 billion (US\$495 million) in 2020, decreasing by RMB75 million, or 2%, compared to RMB3.3 billion in 2019.

Baidu Core revenue was RMB79.7 billion in 2019, increasing by RMB1.4 billion, or 2%, from RMB78.3 billion in 2018.

Online marketing revenues for Baidu Core in 2019 were RMB70.0 billion, decreasing by RMB2.6 billion, or 4%, from RMB72.6 billion in 2018, mainly due to weakness in healthcare, financial services and auto/logistics sectors, offset by strength in education, retail/e-commerce, travel and network services sectors. During 2019, we implemented an initiative in an attempt to require healthcare marketing customers to move their landing sites onto our Managed Page. Requiring healthcare customers to adopt our structured data solution allows us to better monitor the content they offer and increase consumer trust. In addition, certain sectors, such as financial services, were impacted by industry-specific policy changes and slowing macroeconomic environment. These changes dampened revenue growth, compared to the year before.

The number of our active online marketing customers increased from approximately 526,000 in 2018 to approximately 528,000 in 2019, while the average revenue per customer decreased from approximately RMB138,100 in 2018 to approximately RMB132,700 in 2019. In 2018, we began to wind down our local express business, which provided merchants with a turn-key solution to participate in our online marketing and transaction services, leading certain vendors discontinuing their business with us in 2018 and 2019. Excluding the impact of local express business, the number of our active online marketing customers increased from approximately 507,000 in 2018 to approximately 524,000 in 2019.

Our active customers of online marketing services in a given period are defined as those persons or entities that purchase at least one of Baidu Core’s online marketing services during the same period. The definition has been refined from the one used in 2017 annual report to better reflect how the management is evaluating our operating results. The number of our active online marketing customer and the average revenue per customer has been presented on a consistent basis in Track Record Period.

Baidu Core’s cloud services revenue in 2019 were RMB6.4 billion, increasing by RMB3.4 billion, or 112%, compared to RMB3.0 billion in 2018, due to the rapid adoption of our cloud services and products.

Interest income earned from provision of financial services were nil in 2019, decreased from RMB1.7 billion in 2018, as we divested our financial services business in August 2018.

Other revenues for Baidu Core in 2019 were RMB3.3 billion, increasing by RMB2.4 billion, or 268% from RMB897 million in 2018, primarily due to the increase in revenue from sales of our Xiaodu smart devices.

iQIYI

iQIYI revenue was RMB29.7 billion (US\$4.6 billion) in 2020, increasing by RMB713 million, or 2%, from RMB29.0 billion in 2019.

iQIYI online advertising services revenue are included in “Online marketing revenue” in the consolidated statements of comprehensive income (loss).

iQIYI’s online advertising revenues in 2020 were RMB6.8 billion (US\$1.0 billion), decreasing by RMB1.5 billion, or 18%, from RMB8.3 billion in 2019, as a result of the challenging macroeconomic

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environment in China, and the tightened advertising budget of advertisers and intensified competition in advertising business, as well as the tightened regulatory environment and the uncertainty of certain content scheduling in the early stage of COVID-19 pandemic in the first quarter of 2020. However, iQIYI’s online advertising services revenue has been rebounding since the second quarter of 2020 as iQIYI’s advertisers gradually recovered their advertising budgets. Average brand advertising revenue per brand advertiser increased by 11% from RMB5.9 million in 2019 to RMB6.6 million (US\$1.0 million) in 2020.

Revenue from iQIYI membership services, content distribution, and others are included in “Other revenue” in the statements of comprehensive income (loss).

Membership revenue of iQIYI in 2020 were RMB16.5 billion (US\$2.5 billion), increasing by RMB2.1 billion, or 14%, compared to RMB14.4 billion in 2019, primarily driven by (i) an increase in the average revenue per user due to the increase in the members’ willingness to pay for the premium content that iQIYI have been offering, and (ii) the relatively stable number of subscribing members of 101.7 million in 2020 as compared with 106.9 million in 2019.

iQIYI content distribution revenue increased by 5% from RMB2.5 billion in 2019 to RMB2.7 billion (US\$408 million) in 2020, primarily caused by the increase of high-quality content which fulfilled distribution to several platforms.

iQIYI other revenue for iQIYI was RMB3.7 billion (US\$572 million), which remained stable as compared to RMB3.7 billion in 2019.

iQIYI revenue was RMB29.0 billion in 2019, increasing by RMB4.0 billion, or 16% from RMB25.0 billion in 2018.

Online advertising revenues for iQIYI in 2019 were RMB8.3 billion, decreasing by RMB1.0 billion, or 11%, from RMB9.3 billion in 2018, primarily due to the challenging macroeconomic environment, the delay of certain content launches and intensified competition in the advertising business. Average brand advertising revenue per brand advertiser decreased by 12% from RMB6.7 million in 2018 to RMB5.9 million in 2019.

iQIYI membership services were RMB14.4 billion in 2019, increasing by RMB3.8 billion, or 36%, from RMB10.6 billion in 2018, which was primarily due to the growth of iQIYI subscribing members from 87.4 million in 2018 to 106.9 million in 2019.

iQIYI content distribution revenues were RMB2.5 billion in 2019, increasing by RMB381 million, or 18%, from RMB2.2 billion in 2018, primarily caused by an increased average transaction amount of premium content titles.

iQIYI other revenues were RMB3.7 billion in 2019, increasing by RMB869 million, or 30%, from RMB2.9 billion in 2018, primarily as a result of the growth of a number of business verticals, especially the growth of our game business after the acquisition of Skymoos.

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Segment Operating Costs and Expenses

The following table sets forth our operating costs and expenses by segment and the year-over-year change rate for the periods indicated, with each segment operating costs and expenses including inter-segment costs and expenses:

	Year ended December 31,					
	2018	2019		2020		
	RMB	RMB	YoY%	RMB	US\$	YoY%
	(In millions, except percentages)					
Operating Costs and Expenses:						
Baidu Core	54,463	64,450	18	58,146	8,911	(10)
iQIYI	33,295	38,252	15	35,748	5,478	(7)

Baidu Core. Operating costs and expenses of Baidu Core mainly consist of personnel-related costs, traffic acquisition costs, marketing and promotion spending, depreciation expenses, costs of goods sold, content costs, bandwidth cost and sales tax and surcharges.

Cost of revenues

The cost of revenues of Baidu Core decreased by 17% from RMB34.0 billion in 2019 to RMB28.4 billion (US\$4.3 billion) in 2020, primarily due to a decrease in traffic acquisition costs, sales tax and surcharges and costs of goods sold.

The cost of revenues of Baidu Core increased by 34% from RMB25.4 billion in 2018 to RMB34.0 billion in 2019, primarily due to an increase in costs of goods sold, content costs, depreciation expenses, and traffic acquisition costs.

Selling, general and administrative expenses

The selling, general and administrative expenses of Baidu Core decreased by 12% from RMB14.7 billion in 2019 to RMB12.9 billion (US\$2.0 billion) in 2020, primarily due to a decrease in channel spending, promotional marketing and personnel-related expenses.

The selling, general and administrative expenses of Baidu Core decreased by 4% from RMB15.3 billion in 2018 to RMB14.7 billion in 2019, primarily due to a decrease in channel spending and personnel-related expenses, offset by an increase in promotional spending.

Research and development expenses

The research and development expenses of Baidu Core increased by 7% from RMB15.7 billion in 2019 to RMB16.8 billion (US\$2.6 billion) in 2020, primarily due to an increase in personnel-related expenses.

The research and development expenses of Baidu Core increased by 14% from RMB13.8 billion in 2018 to RMB15.7 billion in 2019, primarily due to an increase in personnel-related expenses.

iQIYI. Operating costs and expenses of iQIYI mainly consist of content costs, personnel-related costs, bandwidth costs, marketing and promotion spending, and payment platform charges.

Cost of revenues

The cost of revenues of iQIYI decreased by 8% from RMB30.3 billion in 2019 to RMB27.9 billion (US\$4.3 billion) in 2020, primarily due to lower content costs and bandwidth cost.

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The cost of revenues of iQIYI increased by 12% from RMB27.1 billion in 2018 to RMB30.3 billion in 2019, primarily due to higher content costs and other cost items.

Selling, general and administrative expenses

The selling, general and administrative expenses of iQIYI were RMB5.2 billion (US\$795 million) in 2020, which was basically flat from 2019.

The selling, general and administrative expenses of iQIYI increased by 26% from RMB4.2 billion in 2018 to RMB5.2 billion in 2019, primarily due to increased sales and marketing expenses related to certain iQIYI apps and its game business, as well as higher personnel-related compensation expenses.

Research and development expenses

The research and development expenses of iQIYI were RMB2.7 billion (US\$410 million) in 2020, which was basically flat from 2019.

The research and development expenses of iQIYI increased by 34% from RMB2.0 billion in 2018 to RMB2.7 billion in 2019, primarily due to an increase in personnel-related costs.

Liquidity and Capital Resources

As of December 31, 2020, we had RMB162.9 billion (US\$25.0 billion) of cash, cash equivalents, restricted cash and short-term investments. Our cash and cash equivalents consist of cash on hand and investments in interest bearing demand deposit accounts, time deposits, money market funds and other liquid investments which have original maturities of three months or less. The short-term investments primarily consist of fixed-rate and adjustable-rate debt investments with original maturity of less than one year. We believe that our current cash, cash equivalents, restricted cash and short-term investments and anticipated cash flow from operations will be sufficient to meet our anticipated cash needs, including our cash needs for working capital, capital expenditures and debt repayment, for at least the next 12 months. We may, however, require additional cash due to changing business conditions or other future developments, including any investments or acquisitions we may decide to pursue, and we may incur additional indebtedness (such as loans, convertible senior notes and notes payable) in the future.

Furthermore, cash transfers from our PRC subsidiaries to their parent companies outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to their parent companies outside of China or our company, or otherwise satisfy their foreign currency denominated obligations. See “Risk Factors—Risks Related to Doing Business in China—Governmental control of currency conversion may affect the value of your [REDACTED].” As of December 31, 2020, our PRC subsidiaries and consolidated affiliated entities held RMB134.1 billion (US\$20.6 billion) of cash, cash equivalents, restricted cash, and short-term investments, RMB875 million (US\$134 million) of which were in the form of foreign currencies.

The total outstanding balance of our short-term loans as of December 31, 2019 and 2020 amounted to RMB2.6 billion and RMB3.0 billion (US\$462 million) respectively, which consisted of RMB denominated borrowings made by our subsidiaries from financial institutions in the PRC and were repayable within one year.

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The repayment of substantially all short-term loans is guaranteed by the subsidiaries and VIEs of iQIYI and either collateralized by an office building of one of iQIYI’s VIEs or collateralized by restricted cash or other receivables. As of December 31, 2019 and 2020, the weighted average interest rates for the outstanding borrowings were 4.05% and 4.30%, respectively, and the aggregate amounts of unused lines of credit for short-term loans were RMB1.6 billion and RMB840 million (US\$129 million), respectively.

We have entered into the following long-term loan transactions with commercial banks:

- In June 2016, we entered into a five-year term and revolving facility agreement with a group of 21 syndicated bankers, pursuant to which we are entitled to borrow an unsecured US\$ denominated floating rate loan of US\$1.0 billion with a term of five years and to borrow an unsecured US\$ denominated revolving loan of US\$1.0 billion for five years. The facility was priced at 110 basis points over LIBOR and is intended for our general working capital. In June 2016, we drew down two tranches of US\$250 million each under the facility commitment. In November 2016, we drew down two tranches of US\$250 million each under the facility commitment. In connection with the facility agreements, we entered into four interest rate swap agreements, pursuant to which the loans would be settled with a fixed annual interest rate of 2.11%, 2.10%, 2.78% and 2.78% respectively, during the respective term of the loans.
- iQIYI has other bank borrowings of RMB909 million (US\$139 million) as of December 31, 2020, primarily used for working capital purposes, see Note 12 to the Historical Financial Information in Appendix IA.

In February 2021, we entered into a non-binding term sheet for a term and revolving facility with a group of five mandated lead arrangers, bookrunners and underwriters, pursuant to which we are entitled to borrow an unsecured US\$ denominated floating rate term loan of US\$1.5 billion with a term of 5 years and to borrow an unsecured US\$ denominated revolving loan of US\$1.5 billion for 5 years. The facility is intended to finance the general corporate purposes and pay all transaction related fees and expenses.

We have issued the following rounds of debt securities, which remain outstanding as of the Latest Practicable Date:

- In November 2012, we issued US\$750 million senior unsecured notes due in 2017, with stated annual interest rates of 2.25%, and US\$750 million senior unsecured notes due in 2022 (“2022 Ten-year Notes”), with stated annual interest rates of 3.50%. The net proceeds from the sale of the notes were used for general corporate purposes. In November 2017, notes with carrying value of US\$750 million were fully repaid when they became due. As of December 31, 2020, the total carrying value and estimated fair value of these notes were US\$750 million and US\$786 million, respectively. The estimated fair value was based on quoted prices for our publicly-traded debt securities as of December 31, 2020. We are not subject to any financial covenants or other significant restrictions under the notes. In 2020, we paid an aggregate of US\$26 million in interest payments related to these notes.
- In June 2015, we issued an aggregate of US\$750 million senior unsecured notes due in 2020 (“2020 Notes”), with stated annual interest rate of 3.00%, and an aggregate of US\$500 million senior unsecured notes due in 2025 (“2025 Ten-year Notes”), with stated annual interest rate of 4.13%. The net proceeds from the sale of the notes were used for general corporate purposes. In June 2020, notes with carrying value of US\$750 million were fully repaid when they became due. As of December 31, 2020, the total carrying value and estimated fair value were US\$500 million and US\$559 million, respectively, with respect to the 2025 Notes. The estimated fair values were

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based on quoted prices for our publicly-traded debt securities as of December 31, 2020. We are not subject to any financial covenants or other significant restrictions under the notes. In 2020, we paid an aggregate of US\$32 million in interest payments related to these notes.

- In July 2017, we issued an aggregate of US\$900 million senior unsecured notes due in 2022 (“2022 Five-year Notes”), with stated annual interest rate of 2.88%, and an aggregate of US\$600 million senior unsecured notes due in 2027 (“2027 Notes”), with stated annual interest rate of 3.63%. The net proceeds from the sale of the notes were used to repay existing indebtedness and for general corporate purposes. As of December 31, 2020, the total carrying value and estimated fair value were US\$900 million and US\$926 million, respectively, with respect to the 2022 Five-year Notes, and US\$600 million and US\$663 million, respectively, with respect to the 2027 Notes. The estimated fair values were based on quoted prices for our publicly-traded debt securities as of December 31, 2020. We are not subject to any financial covenants or other significant restrictions under the notes. In 2020, we paid an aggregate of US\$48 million in interest payments related to these notes.
- In March 2018, we issued an aggregate of US\$1.0 billion senior unsecured notes due in 2023 (“2023 Notes”), with stated annual interest rate of 3.88%, and an aggregate of US\$500 million senior unsecured notes due in 2028 (“2028 March Notes”), with stated annual interest rate of 4.38%. The net proceeds from the sale of the notes were used to repay existing indebtedness and for general corporate purposes. As of December 31, 2020, the total carrying value and estimated fair value were US\$1.0 billion and US\$1.1 billion, respectively, with respect to the 2023 Notes, and US\$500 million and US\$576 million, respectively, with respect to the 2028 March Notes. The estimated fair values were based on quoted prices for our publicly-traded debt securities as of December 31, 2020. We are not subject to any financial covenants or other significant restrictions under the notes. In 2020, we paid an aggregate of US\$61 million in interest payments related to these notes.
- In November 2018, we issued an aggregate of US\$600 million senior unsecured notes due in 2024 (“2024 November Notes”), with stated annual interest rate of 4.38%, and an aggregate of US\$400 million senior unsecured notes due in 2028 (“2028 November Notes”), with stated annual interest rate of 4.88%. In December 2018, we issued an aggregate of US\$250 million senior unsecured notes due in 2024 (“2024 December Notes”), with stated annual interest rate of 4.38%, which constitute a further issuance of, and be fungible with and be consolidated and form a single series with the 2024 November Notes. The net proceeds from the sale of the notes were used to repay existing indebtedness and for general corporate purposes. As of December 31, 2020, the total carrying value and estimated fair value were US\$600 million and US\$659 million, respectively, with respect to the 2024 November Notes, US\$400 million and US\$480 million, respectively, with respect to the 2028 November Notes, and US\$250 million and US\$275 million, respectively, with respect to the 2024 December Notes. The estimated fair values were based on quoted prices for our publicly-traded debt securities as of December 31, 2020. We are not subject to any financial covenants or other significant restrictions under the notes. In 2020, we paid an aggregate of US\$57 million in interest payments related to these notes.
- In April 2020, we issued an aggregate of US\$600 million senior unsecured notes due in 2025 (“2025 Five-year Notes”), with stated annual interest rate of 3.075%, and an aggregate of US\$400 million senior unsecured notes due in 2030 (“2030 April Notes”), with stated annual interest rate of 3.425%. The net proceeds from the sale of the notes were used to repay existing indebtedness and for general corporate purposes. As of December 31, 2020, the total carrying value and estimated fair value were US\$600 million and US\$642 million, respectively, with respect to the 2025 Five-Year Notes, and US\$400 million and US\$444 million, respectively, with

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respect to the 2030 April Notes. The estimated fair values were based on quoted prices for our publicly-traded debt securities as of December 31, 2020. We are not subject to any financial covenants or other significant restrictions under the notes.

- In October 2020, we issued an aggregate of US\$650 million senior unsecured notes due in 2026 (“2026 Notes”), with stated annual interest rate of 1.720%, and an aggregate of US\$300 million senior unsecured notes due in 2030 (“2030 October Notes”), with stated annual interest rate of 2.375%. The net proceeds from the sale of the notes are to be used to repay existing indebtedness. As of December 31, 2020, the total carrying value and estimated fair value were US\$650 million and US\$663 million, respectively, with respect to the 2026 Notes, and US\$300 million and US\$307 million, respectively, with respect to the 2030 October Notes. The estimated fair values were based on quoted prices for our publicly-traded debt securities as of December 31, 2020. We are not subject to any financial covenants or other significant restrictions under the notes.

iQIYI has issued the following convertible notes, which remain outstanding as of the Latest Practicable Date:

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

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

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

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- In March 2019, iQIYI issued US\$1.2 billion convertible senior notes due 2025 (“iQIYI 2025 Convertible Notes”). The iQIYI 2025 Convertible Notes are senior, unsecured obligations of iQIYI, and interest is payable semi-annually in cash at a rate of 2.00% per annum with a maturity date of April 1, 2025, unless previously repurchased, redeemed or converted prior to such date. The initial conversion rate of the iQIYI 2025 Convertible Notes is 33.0003 of iQIYI’s ADSs per US\$1,000 principal amount of the iQIYI 2025 Convertible Notes. Upon conversion, iQIYI will pay or deliver to such converting holders, as the case may be, cash, ADSs, or a combination of cash and ADSs, at its election.

Concurrently with the issuance of the iQIYI 2025 Convertible Notes, iQIYI purchased call options on iQIYI’s ADS with certain counterparties at a price of US\$85 million. The capped call exercise price is equal to the initial conversion price of the iQIYI 2025 Convertible Notes and the cap price is US\$40.02 per ADS, subject to certain adjustments under the terms of the capped call transaction. The cost of the capped call was recorded as a reduction of our additional paid-in capital and non-controlling interests on the consolidated balance sheets with no subsequent remeasurement to fair value.

The accounting of iQIYI 2025 Convertible Notes is similar to that of iQIYI 2023 Convertible Notes. The difference between the principal amount of the iQIYI 2025 Convertible Notes and the liability component is considered debt discount and is amortized at an effective interest rate of 6.01% to accrete the discounted carrying value of the iQIYI 2025 Convertible Notes to its face value on April 1, 2023, the put date of the Notes. The holders may require iQIYI to repurchase all or portion of the iQIYI 2025 Convertible Notes for cash on April 1, 2023, or upon a fundamental change, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest.

- In January 2021, iQIYI completed the issuance of US\$900 million convertible senior notes due 2026 (“iQIYI 2026 Convertible Notes”). The iQIYI 2026 Convertible Notes are senior, unsecured obligations of iQIYI, and interest is payable semi-annually in cash at a rate of 4.00% per annum with a maturity date of December 15, 2026, unless previously repurchased, redeemed or converted prior to such date. The initial conversion rate of the iQIYI 2026 Convertible Notes is 44.8179 ADSs of iQIYI per US\$1,000 principal amount of the iQIYI 2026 Convertible Notes. Upon conversion, iQIYI will pay or deliver to such converting holders, as the case may be, cash, iQIYI ADSs, or a combination of cash and iQIYI ADSs, at its election.

The iQIYI 2023 Convertible Notes, the iQIYI 2025 Convertible Notes and the iQIYI 2026 Convertible Notes are collectively referred to the Convertible Notes. As of December 31, 2019 and 2020, the principal amount of the liability component of the Convertible Notes were RMB13.6 billion and RMB18.0 billion (US\$2.8 billion), unamortized debt discount was RMB1.3 billion and RMB1.3 billion (US\$195 million), and the net carrying amount of the liability component were RMB12.3 billion and RMB16.7 billion (US\$2.6 billion), respectively. The carrying amount of the equity component of the Convertible Notes were RMB1.3 billion and RMB1.7 billion (US\$267 million), respectively. For the years ended December 31, 2018, 2019 and 2020, the amount of interest cost recognized relating to both the contractual interest coupon and amortization of the discount on the liability component were RMB24 million, RMB670 million and RMB799 million (US\$123 million), respectively. As of December 31, 2020, the liability component of the iQIYI 2023 Convertible Notes, the iQIYI 2025 Convertible Notes and the iQIYI 2026 Convertible Notes will be accreted up to the principal amount of RMB4.9 billion (US\$750 million), RMB7.8 billion (US\$1.2 billion) and RMB5.2 billion (US\$800 million) over a remaining period of 0.92 years, 2.25 years and 3.59 years, respectively.

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We may use the net proceeds from our issuance and sale of the notes to fund the operations of our PRC subsidiaries by making additional capital contributions to our existing PRC subsidiaries, injecting capital to establish new PRC subsidiaries and/or providing loans to our PRC subsidiaries. Such transfer of funds from Baidu, Inc. or any of our offshore subsidiaries to our PRC subsidiaries is subject to the PRC regulatory restrictions and procedures: (i) capital increase of the existing PRC subsidiaries and establishment of new PRC subsidiaries must be registered with the local branch of SAMR and reported to the Ministry of Commerce via the online enterprise registration system, and registered with local banks authorized by SAFE; and (ii) loans to any of our PRC subsidiaries must not exceed the statutory limit and must be filed with SAFE. See “Risk Factors—Risks Related to Doing Business in China—PRC regulation of loans to and direct investment in PRC entities by offshore holding companies and governmental control of currency conversion may delay or prevent us from making loans to our PRC subsidiaries or consolidated affiliated entities, or making additional capital contributions to our PRC subsidiaries, which could adversely affect our ability to fund and expand our business.”

As of December 31, 2019 and 2020, we had RMB51.9 billion and RMB55.8 billion (US\$8.6 billion) in long-term loans and notes payables (including current portion of RMB6.0 billion and RMB7.4 billion (US\$1.1 billion)), RMB12.3 billion and RMB16.7 billion (US\$2.6 billion) in long-term convertible notes (including current portion of nil and RMB4.8 billion (US\$728 million)) and had RMB2.6 billion and RMB3.0 billion (US\$462 million) in short-term loans, respectively. Our long-term loans and notes payable, long-term convertible notes and short-term loans include those of iQIYI hereinafter. As of December 31, 2019 and 2020, iQIYI had RMB1.6 billion and RMB909 million (US\$139 million) in long-term loans payables (including current portion of RMB737 million and RMB909 million (US\$139 million)), RMB12.3 billion and RMB16.7 billion (US\$2.6 billion) in long-term convertible notes (including current portion of nil and RMB4.8 billion (US\$728 million)) and had RMB2.6 billion and RMB3.0 billion (US\$455 million) in short-term loans, respectively.

Cash Flows

As of December 31, 2018, 2019 and 2020, we had RMB141.5 billion, RMB147.4 billion and RMB162.9 billion (US\$25.0 billion) in cash, cash equivalents, restricted cash and short-term investments.

The following table sets forth a summary of our cash flows for the periods indicated:

	Year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in millions)			
Net cash provided by operating activities	35,967	28,458	24,200	3,709
Net cash used in investing activities	(34,460)	(19,974)	(27,552)	(4,223)
Net cash provided by (used in) financing activities	15,082	(3,873)	5,665	869
Effect of exchange rate changes on cash, cash equivalents and restricted cash	1,902	1	(212)	(32)
Net increase in cash, cash equivalents and restricted cash	18,491	4,612	2,101	323
Cash, cash equivalents and restricted cash at beginning of the year	11,336	29,827	34,439	5,278
Cash, cash equivalents and restricted cash at end of the year	29,827	34,439	36,540	5,601

Operating Activities

Net cash provided by operating activities decreased to RMB24.2 billion (US\$3.7 billion) in 2020 from RMB28.5 billion in 2019. This decrease was primarily due to an addition of RMB10.5 billion

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(US\$1.6 billion) in licensed copyrights resulting from reclassification of cash outflows for costs incurred to acquire licensed contents from investing activities to operating activities due to the adoption of ASU 2019-02, an increase of RMB9.7 billion (US\$1.5 billion) in investment and interest income and a decrease of RMB7.8 billion (US\$1.2 billion) in impairment of other assets, partially offset by an increase of RMB21.3 billion (US\$3.3 billion) in net income.

Net cash generated from operating activities decreased to RMB28.5 billion in 2019 from RMB36.0 billion in 2018. This decrease was primarily due to a decrease of RMB24.9 billion in net income, partially offset by an increase of RMB9.5 billion in impairment of other assets and a decrease of RMB6.1 billion in gain on disposal of subsidiaries.

Investing Activities

Net cash used in investing activities was RMB27.6 billion (US\$4.2 billion) in 2020, consisting primarily of RMB159.2 billion (US\$24.4 billion) in purchase of held-to-maturity investments, RMB133.0 billion (US\$20.4 billion) in purchase of available-for-sale investments, RMB134.3 billion (US\$20.6 billion) in maturities of held-to-maturity investments, RMB135.6 billion (US\$20.8 billion) in sales and maturities of available-for-sale investments, and RMB4.5 billion (US\$685 million) in purchase of other long-term investments offset by RMB6.5 billion (US\$1.0 billion) in proceeds from disposal of long-term investments.

Net cash used in investing activities was RMB20.0 billion in 2019, consisting primarily of RMB12.2 billion for acquisition of licensed copyrights, RMB6.4 billion for acquisition of fixed assets, RMB120.2 billion in purchase of held-to-maturity investments, RMB218.2 billion in purchase of available-for-sale investments, offset by RMB46.6 billion in maturities of held-to-maturity investments and RMB291.2 billion in sales and maturities of available-for-sale investments, and RMB6.3 billion in purchase of other long-term investments offset by RMB7.5 billion in proceeds from disposal of long-term investments.

Net cash used in investing activities was RMB34.5 billion in 2018, consisting primarily of RMB13.1 billion for the acquisition of licensed copyrights, RMB27.6 billion in purchase of held-to-maturity investments, RMB284.1 billion in purchase of available-for-sale investments and RMB9.9 billion in purchase of long-term investments, offset by RMB49.0 billion in maturities of held-to-maturity investments and RMB239.9 billion in sales and maturities of available-for sale investments, and RMB10.8 billion in our net cash inflow relating to the financial services business we divested in 2018.

We have adopted ASU 2019-02 on January 1, 2020 which the FASB issued in March 2019, and report cash flows related to the acquisition of licensed copyrights as “operating activities” in the statement of cash flows, beginning with the period of adoption, as opposed to “investing activities.”

Financing Activities

Net cash provided by financing activities was RMB5.7 billion (US\$869 million) in 2020, consisting primarily of RMB13.3 billion (US\$2.0 billion) from our issuance of long-term notes, RMB5.2 billion (US\$789 million) from the issuance by iQIYI of convertible notes, and RMB4.7 billion (US\$715 million) from issuance of iQIYI’s shares, offset by RMB13.1 billion (US\$2.0 billion) used to repurchase our shares and repayment of RMB5.4 billion (US\$824 million) for long-term notes.

Net cash used in financing activities was RMB3.9 billion in 2019, consisting primarily of our repayment of RMB6.9 billion for long-term notes and RMB5.0 billion used to repurchase our shares, offset by RMB7.9 billion of net proceeds from the issuance by iQIYI of convertible notes.

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Net cash generated from financing activities was RMB15.1 billion in 2018, consisting primarily of RMB18.1 billion of net proceeds from issuance of long-term notes and RMB15.7 billion of proceeds from issuance of shares by our subsidiaries, which was primarily due to the initial public offering of iQIYI’s ADSs in 2018, offset by net cash outflow of RMB21.3 billion relating to the financial services business we divested in 2018.

Certain Balance Sheet Items

Long-term investments

The following table sets forth a breakdown of our long-term investments by accounting treatment as of the dates indicated:

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(In millions)			
Equity investments at fair value with readily determinable fair value	4,428	11,334	12,978	1,989
Available-for-sale debt investment	1,167	3,970	2,607	400
Equity investments without readily determinable fair value	29,269	24,686	24,603	3,770
Equity method investments	44,133	27,105	24,067	3,688
Investments accounted for at fair value	1,457	1,819	2,238	343
Long-term held-to-maturity investments	—	496	9,740	1,493
Total long-term investments	<u>80,454</u>	<u>69,410</u>	<u>76,233</u>	<u>11,683</u>

Equity investments at fair value with readily determinable fair value represent investments in the equity securities of publicly listed companies, for which we do not have significant influence. Equity investments at fair value with readily determinable fair value are reported at fair value and changes in fair value are recognized in earnings.

Equity investments without readily determinable fair value mainly represents our investments in companies without observable market price in the form of preferred shares or common stock for which we do not have significant influence. For these investments, we elected to use the measurement alternative to measure such investments at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer, if any.

We recognized a net gain of RMB4.4 billion, RMB17 million, and RMB2.0 billion (US\$304 million) related to equity securities without readily determinable fair value as “others, net” in our consolidated statements of comprehensive income for the years ended December 31, 2018, 2019 and 2020, respectively.

During the Track Record Period, our significant equity method investees primarily included Trip.com with carrying amount of RMB30.5 billion, RMB14.1 billion and RMB12.6 billion as of December 31, 2018, 2019 and 2020, respectively. We recognized impairment of RMB167 million, RMB9.2 billion and RMB297 million (US\$46 million) related to equity method investments for the years ended December 31, 2018, 2019 and 2020, respectively.

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

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Short-term investments

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

Accounts Receivable, net

Our accounts receivable mainly consists of those due from our online marketing customers, cloud services customers and other services customers, and are recognized and carried at the original invoiced amount less an allowance for credit losses. Our accounts receivable, net increased by 17% from RMB7.4 billion as of December 31, 2019 to RMB8.7 billion (US\$1.3 billion) as of December 31, 2020, primarily due to an increase from online marketing and cloud services. Our accounts receivable increased by 23% from RMB6.0 billion as of December 31, 2018 to RMB7.4 billion as of December 31, 2019, primarily due to our business development on Xiaodu smart products and cloud services.

Accounts Payable and Accrued Liabilities

Our accounts payable and accrued liabilities primarily include those related to content acquisition costs, traffic acquisition costs, bandwidth costs, accrued payroll and welfare and accrued other operating expenses. Our accounts payable and accrued liabilities increased by 12% from RMB32.7 billion as of December 31, 2019 to 36.7 billion (US\$5.6 billion) as of December 31, 2020, primarily due to an increase in payables to non-controlling shareholder related to their withdrawal of equity from our subsidiary. Our accounts payable and accrued liabilities decreased by 8% from RMB35.4 billion as of December 31, 2018 to RMB32.7 billion as of December 31, 2019 primarily due to a decrease in content acquisition related payables.

Customer Deposits and Deferred Revenue

Our customer deposits and deferred revenue mainly consist of deposits received from certain customers of our online marketing services. Our customer deposits and deferred revenue increased by 14% from RMB11.1 billion as of December 31, 2019 to RMB12.6 billion (US\$1.9 billion) as of December 31, 2020, primarily due to an increase in deposits and consideration received from customers of online marketing services and iQIYI membership services. Our customer deposits and deferred revenue increased by 20% from RMB9.2 billion as of December 31, 2018 to RMB11.1 billion as of December 31, 2019, primarily due to an increase in deposits and consideration received from online marketing services customers.

Total Shareholders' Equity

Our total Baidu, Inc. shareholders' equity increased by 12% from of RMB163.6 billion as of December 31, 2019 to RMB182.7 billion (US\$28.0 billion) as of December 31, 2020, primarily due to net income attributable to Baidu, Inc of RMB22.5 billion (US\$3.4 billion), share-based compensation of RMB5.7 billion (US\$881 million) and issuance of shares by our subsidiaries to non-controlling interest of RMB2.3 billion, and partially offset by repurchase of ordinary shares of RMB13.1 billion (US\$2.0 billion) for the year ended December 31, 2020. Our total shareholders' equity slightly

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increased from of RMB162.9 billion as of December 31, 2018 to RMB163.6 billion as of December 31, 2019, primarily due to net income attributable to Baidu, Inc of RMB2.1 billion and share-based compensation of RMB5.0 billion, and offset by other comprehensive loss of RMB1.6 billion and repurchase and retirement of ordinary shares of RMB5.0 billion in 2019.

Goodwill

The carrying amount of goodwill for each of Baidu Core and iQIYI as of December 31, 2018, 2019 and 2020 was as follows.

	As of December 31,		
	2018	2019	2020
	RMB	RMB	RMB
	(In millions)		
Baidu Core			
—91 Wireless	9,845	9,845	9,845
—Others	4,803	4,517	8,515
	14,648	14,362	18,360
 iQIYI	 3,888	 3,888	 3,888
	18,536	18,250	22,248

In October 2013, we acquired 100% of the outstanding ordinary shares of 91 Wireless Websoft Limited (“91 Wireless”), a leading Chinese mobile application marketplaces and mobile games operator, with which we expected to enhance its ability and market share in mobile online marketing business. The total purchase consideration was RMB11.2 billion, and we recognized goodwill of RMB9.8 billion.

The carrying amount of goodwill for iQIYI reporting unit mainly represents business combinations of iQIYI, Inc. (formerly known as “Qiyi.com, Inc.”) completed in 2012 and PPStream Inc. (“PPS”) completed in 2013.

Except for 91 Wireless, iQIYI and PPS, we completed over 30 business combinations since establishment, from which we expected to achieve significant synergies as the acquired businesses complement our existing businesses. The acquired entities were considered insignificant individually as of the acquisition date.

As of December 31, 2018, 2019 and 2020, we had two reporting units, consisting of Baidu Core and iQIYI. We have the option to assess qualitative factors first to determine whether it is necessary to perform the quantitative test in accordance with ASC Subtopic 350-20, *Intangibles — Goodwill and Other: Goodwill* (“ASC 350-20”). In the qualitative assessment, we consider primary factors such as industry and market considerations, overall financial performance of the reporting unit, and other specific information related to the operations. If we believe, as a result of the qualitative assessment, that it is more-likely-than-not that the fair value of the reporting unit is less than its carrying amount, the quantitative impairment test described above is required. Otherwise, no further testing is required. The quantitative impairment test compares the fair value of the reporting unit with its carrying amount, including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss shall be recognized in an amount equal to that excess.

We performed qualitative assessments for the reporting unit of Baidu Core as of December 31, 2018, 2019 and 2020. Based on the requirements of ASC 350-20, we evaluated all relevant factors including,

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but not limited to, macroeconomic conditions, industry and market conditions, financial performance, and our share price. We weighed all factors in their entirety and concluded that it was not more-likely-than-not the fair value of the Baidu Core reporting unit was less than its carrying amount. Therefore, further impairment testing was unnecessary as of December 31, 2018, 2019 and 2020.

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

Intangible assets — Trademarks and Others

Our intangible assets included trademarks, technology, intellectual property rights, online literature and others. The estimated useful lives of trademarks range from 2 to 22 years. Others mainly include customer relationships, software, domain names and user lists that have estimated useful lives ranging from 1 to 22 years. The estimated useful lives of intangible assets are determined by considering several factors, including the expected use of the asset by us, our own historical experience in renewing or extending similar arrangements, the effect of demand, competition and other economic factors, etc.. For each major intangible asset class, the weighted average useful lives from the date of purchase for trademarks and others are 10 years and 8 years, respectively.

Level 3 fair value measurements

We use valuation methodologies, primarily the market approach, which requires management to unobservable inputs (level 3) such as selection of comparable companies and multiples, volatility, discount for lack of marketability and probability of exit events as it relates to redemption preferences when applicable.

Other non-financial assets, intangible assets, licensed copyrights and produced content, would be measured at fair value whenever events or changes in circumstances indicate the carrying value of an asset may not be recoverable. The fair values of these non-financial long-lived assets were measured under income approach, based on our best estimation. Significant inputs used in the income approach primarily included future estimated cash flows and discount rate.

Our Directors oversee the valuation process by ensuring the management selecting a qualified financial reporting team, maintaining robust processes and internal controls, and overseeing significant valuations. Under the supervision of our Directors, the management conducts the estimation of fair values of such non-financial assets, including evaluation and selection of appropriate valuation methodologies and significant unobservable inputs of such non-recurring fair value measurements (level 3), with the assistance of our valuation specialists for those valuations that are significant to the financial statements. Based on the above procedures, our Directors are of the view that the valuation analysis performed by the Company is fair and reasonable, and the level 3 fair value measurements in the financial statements of our Company are properly prepared.

Details of the fair value measurement of financial assets categorized within Level 3, particularly the fair value hierarchy, the valuation techniques and key inputs, including significant unobservable inputs, and reconciliation of level 3 measurements are disclosed in Note 25 to the Historical Financial Information in Appendix IA.

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In relation to the fair value measurement of financial assets categorized within Level 3, the Joint Sponsors have conducted relevant due diligence work, including but not limited to, reviewing relevant disclosure and understanding, through the Company, the valuation work performed, including the valuation techniques adopted, procedures performed for impairment testing and the internal control process undertaken by the Company for the valuation of the financial assets. Having considered the work done by the Company’s management and Directors and the relevant due diligence conducted by the Joint Sponsors, nothing material has come to the Joint Sponsors’ attention to disagree with the Company in respect of the valuation of such financial assets.

Critical Accounting Policies

We prepare financial statements in accordance with U.S. GAAP, which requires us to make judgments, estimates and assumptions that affect the reported amounts of our assets and liabilities and the disclosure of our contingent assets and liabilities at the end of each fiscal period and the reported amounts of revenues and expenses during each fiscal period. We continually evaluate these judgments and estimates based on our own historical experience, knowledge and assessment of current business and other conditions, our expectations regarding the future based on available information and assumptions that we believe to be reasonable, which together form our basis for making judgments about matters that are not readily apparent from other sources. Since the use of estimates is an integral component of the financial reporting process, our actual results could differ from those estimates. Some of our accounting policies require a higher degree of judgment than others in their application.

The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors that should be considered when reviewing our financial statements. For further information on our critical accounting policies, see Note 2 to the Accountants’ Report in Appendix IA. We believe the following accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

Consolidation of Affiliated Entities

In order to comply with PRC laws and regulations limiting foreign ownership of or imposing conditions on internet content, advertising, audio and video services, and mobile app distribution businesses, we operate our websites and conduct our internet content, advertising, audio and video services, and mobile app distribution businesses through our affiliated entities in China by means of contractual arrangements. We have entered into certain exclusive agreements with the affiliated entities directly or through our subsidiaries, which obligate us to absorb losses of the VIEs’ that could potentially be significant to the VIEs or entitle the Primary Beneficiaries to receive economic benefits from the VIEs that could potentially be significant to the VIEs. In addition, we have entered into certain agreements with the affiliated entities and the nominee shareholders of affiliated entities directly or through our subsidiaries, which enable us to direct the activities that most significantly affect the economic performance of the affiliated entities. Based on these contractual arrangements, we consolidate the affiliated entities as required by ASC Topic 810, *Consolidation*, because we hold all the variable interests of the affiliated entities directly or through the subsidiaries, which are the primary beneficiaries of the affiliated entities. We will reconsider the initial determination of whether a legal entity is a consolidated affiliated entity upon certain events listed in ASC 810-10-35-4 occurring. We will also continuously reconsider whether we are the primary beneficiaries of our affiliated entities as facts and circumstances change. See “Risk Factors—Risks Related to Our Corporate Structure.”

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Segment Reporting

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

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

Revenue Recognition

We adopted ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (“ASU 2014-09”), codified in ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”) from January 1, 2018, using the modified retrospective method.

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

Performance-based online marketing services

Cost-per-click (“CPC”)

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

Other performance-based online marketing services

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

Online display advertising services

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

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Baidu Union online marketing services

Baidu Union is a program through which we expand distribution of its customers’ sponsored links or advertisements by leveraging the traffic of Baidu Union partners’ online properties. We acquire traffic from Baidu Union partners and is responsible for service fulfillment, pricing and bearing inventory risks. The services which we provided to customers through Baidu Union partners’ online properties include CPC, other performance-based online marketing services and online display advertising services. These services are provided in the same way to our customers as those through Baidu’s own platforms or properties. As principal, we recognize revenue from Baidu Union on a gross basis, based on customer billing. Payments made to Baidu Union partners are recorded as traffic acquisition costs, which are included in “cost of revenues” in the consolidated statements of comprehensive income (loss).

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

Collection

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

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

Sales incentives

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

Membership services

We offers membership services to subscribing members with various privileges, which primarily include access to exclusive and ad-free streaming of premium content 1080P/4K high definition video, Dolby Audio, and accelerated downloads and others, or personal cloud services, in exchange for non-refundable upfront membership fees. When the receipt of membership fees is for services to be delivered over a period of time, the receipt is initially recorded as “customer deposits and deferred

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revenue” and revenue is recognized ratably over the membership period as services are rendered. Membership services revenue also includes fees earned from subscribing members for on-demand content purchases and early access to premium content. We are the principal in its relationships where partners, including consumer electronics manufacturers (TVs and cell phones), mobile operators, internet service providers and online payment agencies, provide access to the membership services or payment processing services as we retain control over its service delivery to its subscribing members. Typically, payments made to the partners, are recorded as cost of revenues. For the sale of the right to other membership services through strategic cooperation with other parties, we recognize revenue on a net basis when we do not control the specified services before they are transferred to the customer.

Content distribution

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

We also enter into nonmonetary transactions to exchange online broadcasting rights of licensed copyrights with other online video broadcasting companies from time to time. The exchanged licensed copyrights provide rights for each party to broadcast the licensed copyrights received on its own website only. Each transferring party retains the right to continue broadcasting the exclusive content on its own website and/or sublicense the rights to the content it surrendered in the exchange. We account for these nonmonetary exchanges based on the fair value of the asset received. Barter sublicensing revenue are recognized in accordance with the same revenue recognition criteria above. We estimate the fair value of the licensed copyrights received using a market approach based on various factors, including the purchase price of similar non-exclusive and/or exclusive contents, broadcasting schedule, cast and crew, theme, and box office. The transaction price of barter sublicensing revenues is calculated on the individual content asset basis. For a significant barter sublicensing transaction, the Company further reviews the fair value by analyzing against the cost of the licensed copyrights bartered out and/or engages a third-party valuation firm to assess the reasonableness of its fair value. The attributable cost of sublicensing transactions, whether for cash or through nonmonetary exchanges, is recognized as cost of revenues through the amortization of the sublicensing right component of the exclusive licensed copyright.

Financial services

Before the divestiture of Du Xiaoman in August 2018, we offer financial services which include provision of installment payment services to consumers and wealth management services to third-party investors. Interest income earned from provision of financial services is reported as “Other revenues” and reported on a net basis after deduction of related interest costs incurred.

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Cloud services

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

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

Sales of hardware

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

Other revenue recognition related policies

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

Timing of revenue recognition may differ from the timing of invoicing to customers. For certain services customers are required to pay before the services are delivered to the customer. When either party to a revenue contract has performed, we recognize a contract asset or a contract liability on the consolidated balance sheet, depending on the relationship between the entity’s performance and the customer’s payment. Contract liabilities were mainly related to fees for membership services to be provided over the membership period, which were presented as “Customer deposits and deferred revenue” on the consolidated balance sheets. Contract assets mainly represent unbilled amounts related to our rights to consideration for advertising services and cloud services delivered and were included in “Other current assets, net” on the consolidated balance sheets.

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

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Share-based Compensation

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

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

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

Income Taxes

We recognize income taxes under the liability method. Deferred income taxes are recognized for differences between the financial reporting and tax bases of assets and liabilities at enacted tax rates in effect for the years in which the differences are expected to reverse. We record a valuation allowance against the amount of deferred tax assets that we determine is not more-likely-than-not to be realized. The effect on deferred taxes of a change in tax rates is recognized in earnings in the period that includes the enactment date. For reconciliation of tax computed by applying the respective statutory income tax rate to pre-tax income, please see “Income taxes” under Note 14 to the Accountant’s Report in Appendix IA.

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

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

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Long-term investments

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

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

For equity investments measured at fair value with changes in fair value recorded in earnings, we do not assess whether those securities are impaired. For equity investments that we elect to use the measurement alternative, we make a qualitative assessment considering impairment indicators to evaluate whether investments are impaired at each reporting date. Impairment indicators considered include, but are not limited to, a significant deterioration in the earnings performance or business prospects of the investee, including factors that raise significant concerns about the investee’s ability to continue as a going concern, a significant adverse change in the regulatory, economic, or technologic environment of the investee and a significant adverse change in the general market condition of either the geographical area or the industry in which the investee operates. If a qualitative assessment indicates that the investment is impaired, we estimate the investment’s fair value in accordance with the principles of ASC 820. If the fair value is less than the investment’s carrying value, we recognize an impairment loss in net income equal to the difference between the carrying value and fair value.

Investments in entities in which we can exercise significant influence but does not own a majority equity interest or control are accounted for using the equity method of accounting in accordance with ASC Topic 323, *Investments-Equity Method and Joint Ventures* (“ASC 323”). Under the equity method, we initially record its investment at cost and the difference between the cost of the equity investee and the amount of the underlying equity in the net assets of the equity investee is accounted for as if the investee were a consolidated subsidiary. We subsequently adjust the carrying amount of its investment to recognize our proportionate share of each equity investee’s net income or loss into earnings. We will discontinue applying the equity method if an investment (plus additional financial support provided to the investee, if any) has been reduced to zero. When we have other investments in

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the equity-method investee and we are not required to advance additional funds to the investee, we would continue to report its share of equity method losses in its statement of comprehensive (loss)income after our equity-method investment in ordinary shares has been reduced to zero, to the extent of and as an adjustment to the adjusted basis of our other investments in the investee. Such losses are first applied to those investments of a lower liquidation preference before being further applied to the investments of a higher liquidation preference. We adopted a one-quarter lag in reporting for its share of equity income (loss) in all of its equity method investees.

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

In accordance with ASC Subtopic 946-320, *Financial Services—Investment Companies, Investments—Debt and Equity Securities*, we account for long-term equity investments in unlisted companies held by consolidated investment companies at fair value. These investments were initially recorded at their transaction price net of transaction costs, if any. Fair value of these investments are re-measured at each reporting date in accordance with ASC 820.

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

Licensed Copyrights, net

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

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

For the right to broadcast the contents on its own websites that generates online advertising and membership services revenues, based on factors including historical and estimated future viewership

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patterns, the content costs are amortized using an accelerated method by content categories over the shorter of each content’s contractual period or estimated useful lives within ten years, beginning with the month of first availability. Content categories accounting for most of our content include newly released drama series, newly released movies, animations, library drama series and library movies. Estimates of future viewership consumption patterns and economic useful lives are reviewed periodically, at least on an annual basis and revised, if necessary. Revisions to the amortization patterns are accounted for as a change in accounting estimate prospectively in accordance with ASC Topic 250, *Accounting Changes and Error Corrections* (“ASC 250”).

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

Produced Content, net

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

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

Impairment of licensed copyrights and produced content

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

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

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

Business Combinations

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

In a business combination achieved in stages, we re-measured our previously held equity interest in the acquiree immediately before obtaining control at its acquisition-date fair value and the re-measurement gain or loss, if any, is recognized in earnings.

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

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Recently Issued And Adopted Accounting Pronouncements

Please refer to Note 2 to the Accountants’ Report in Appendix IA.

Recently Issued But Not Yet Adopted Accounting Pronouncements

Please refer to Note 2 to the Accountants’ Report in Appendix IA.

Capital Expenditures

We made capital expenditures of RMB8.8 billion, RMB6.4 billion and RMB5.1 billion (US\$779 million) in 2018, 2019 and 2020, representing 9%, 6% and 5% of our total revenues, respectively. In the years of 2018, 2019 and 2020, our capital expenditures were primarily attributable to the purchase of servers, network equipment and other computer hardware to increase our network infrastructure capacity. We funded our capital expenditures primarily with net cash flows generated from operating activities.

Our capital expenditures may increase in the future as our business continues to grow, in connection with the expansion and improvement of our network infrastructure and the construction of additional office buildings and cloud-computing based data centers. We currently plan to fund these expenditures with our current cash, cash equivalents, restricted cash, short-term investments and anticipated cash flow generated from our operating activities.

Holding Company Structure

Baidu, Inc. is a holding company with no operations of its own. We conduct our operations in China primarily through our subsidiaries and consolidated affiliated entities in China. As a result, although other means are available for us to obtain financing at the holding company level, Baidu, Inc.’s ability to pay dividends to the shareholders and to service any debt it may incur may depend upon dividends paid by our PRC subsidiaries and license and service fees paid by our PRC consolidated affiliated entities. If any of our subsidiaries incurs debt on its own behalf in the future, the instruments governing such debt may restrict its ability to pay dividends to Baidu, Inc. In addition, our PRC subsidiaries and consolidated affiliated entities are required to make appropriations to certain statutory reserve funds, which are not distributable as cash dividends except in the event of a solvent liquidation of the companies.

Our PRC subsidiaries, being foreign-invested enterprises established in China, are required to make appropriations to certain statutory reserves, namely, a general reserve fund, an enterprise expansion fund, a staff welfare fund and a bonus fund, all of which are appropriated from net profit as reported in their PRC statutory accounts. Each of our PRC subsidiaries is required to allocate at least 10% of its after-tax profits to a general reserve fund until such fund has reached 50% of its respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus funds are at the discretion of the board of directors of the PRC subsidiaries.

Our consolidated affiliated entities must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserve funds, namely a statutory surplus fund, a statutory public welfare fund and a discretionary surplus fund. Each of our consolidated affiliated entities is required to allocate at least 10% of its after-tax profits to the statutory surplus fund until such fund has reached 50% of its respective registered capital. Appropriations to the statutory public welfare fund and the discretionary surplus fund are at the discretion of our consolidated affiliated entities.

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Under PRC laws and regulations, our PRC subsidiaries and consolidated affiliated entities are subject to certain restrictions with respect to paying dividends or otherwise transferring any of their net assets to us. The amounts restricted include the paid-up capital and the statutory reserve funds of our PRC subsidiaries and the net assets of our consolidated affiliated entities in which we have no legal ownership, totaling RMB25.7 billion, RMB40.8 billion and RMB45.0 billion (US\$6.9 billion) as of December 31, 2018, 2019 and 2020, respectively.

Working Capital

We recorded net current assets of RMB98.2 billion, RMB108.2 billion and RMB115.0 billion (US\$17.6 billion), respectively, as of December 31, 2018 and 2019 and 2020. The following table sets forth a breakdown of our current assets and liabilities as of the dates indicated.

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in millions)			
Current assets:				
Cash and cash equivalents	27,638	33,443	35,782	5,484
Restricted cash	2,189	996	758	117
Short-term investments, net	111,626	112,924	126,402	19,372
Accounts receivable, net	6,015	7,416	8,668	1,328
Amounts due from related parties	785	1,594	726	111
Other current assets, net	6,841	9,189	11,006	1,687
Total current assets	155,094	165,562	183,342	28,099
Current liabilities				
Short-term loans	3,046	2,618	3,016	462
Accounts payable and accrued liabilities	35,381	32,701	36,716	5,627
Customer deposits and deferred revenue	9,221	11,062	12,626	1,935
Deferred income	523	529	158	24
Long-term loans, current portion	84	737	7,427	1,138
Notes payable, current portion	6,871	5,219	—	—
Convertible senior note, current portion	—	—	4,752	728
Amounts due to related parties	1,727	2,231	1,324	203
Operating lease liabilities	—	2,283	2,366	364
Total current liabilities	56,853	57,380	68,385	10,481
Net current assets	98,241	108,182	114,957	17,618

For a detailed discussion on our cash position, being the balance sheet item that has material impact on our liquidity, as well as material changes in the various working capital items, see “—Liquidity and Capital Resources.”

Taking into account our current cash, cash equivalents, restricted cash and short-term investments, anticipated cash flow from operations and the estimated [REDACTED] available to us from the [REDACTED], our directors believe that we have sufficient working capital for our present requirements and for at least the next 12 months from the date of this document.

Off-Balance Sheet Arrangements

We have not entered into any financial guarantees or other commitments to guarantee the payment obligations of any third parties. We have not entered into any off-balance sheet derivative instruments. Furthermore, we do not have any retained or contingent interest in assets transferred to an

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unconsolidated entity that serves as credit, liquidity or market risk support to such entity. We do not have any variable interest in any unconsolidated entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

Contractual Obligations

The following table sets forth our contractual obligations by specified categories as of December 31, 2020:

	Payment Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In RMB millions)				
Long-term debt obligations ⁽¹⁾	84,842	9,807	26,366	22,953	25,716
Operating lease obligations ⁽²⁾	7,839	2,430	3,289	1,496	624
Purchase obligations for fixed assets	754	729	13	5	7
Purchase obligations for bandwidth and property management fees	1,373	742	458	126	47
Purchase obligations for video content ⁽³⁾	21,771	10,480	9,660	1,631	—
Investment commitment obligations ⁽⁴⁾	1,454	NA	NA	NA	NA
Total	118,033	24,188	39,786	26,211	26,394

Notes:

- (1) Including estimated interest payments of RMB10.9 billion in total (RMB2.4 billion, RMB4.2 billion, RMB2.4 billion and RMB1.9 billion over the periods of less than one year, one to three years, three to five years and more than five years from December 31, 2020, respectively). Please see “Loans Payable” under Note 12, “Notes Payable” under Note 13 and “Convertible Notes” under Note 14 to the Historical Financial Information in Appendix IA.
- (2) Operating lease obligations represent our obligations for leasing internet data center facilities and office premises, which include all future cash outflows under ASC Topic 842, *Leases*. Please see “Leases” under Note 15 to the Historical Financial Information in Appendix IA.
- (3) Purchase obligations for video content consist primarily of expenditures for video content under non-cancelable agreements for licensed copyrights and produced content.
- (4) Our investment commitments primarily relate to capital contributions obligation under certain arrangements which do not have contractual maturity date.

Other than the contractual obligations set forth above, we do not have any contractual obligations that are long-term debt obligations, operating lease obligations, purchase obligations, investment commitment obligations or other long-term liabilities reflected on our consolidated balance sheet.

Material Related Party Transactions

For details relating to our related party transactions, see “Related Party Transactions”. Our Directors believe that our transactions with related parties during the Track Record Period were conducted on an arm’s length basis, and they did not distort our results of operations or make our historical results not reflective of our future performance.

Dividend Policy

Baidu, Inc., our holding company in the Cayman Islands, has never declared or paid any dividends on our ordinary shares, nor do we have any present plan to pay any cash dividends on our ordinary shares in the foreseeable future. We currently intend to retain most, if not all, of our available funds and any future earnings to operate and expand our business.

Our board of directors has complete discretion as to whether to distribute dividends, subject to Cayman Islands law. Even if our board of directors decides to pay dividends, the form, frequency and amount of

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our dividends will depend upon our future operations and earnings, capital requirements and surplus, financial condition, contractual restrictions and other factors that our board of directors may deem relevant. If we pay any dividends, our depositary will distribute such dividends to our ADS holders to the same extent as holders of our ordinary shares, subject to the terms of the deposit agreement, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

Quantitative and Qualitative Disclosures about Market

Interest Rate Risk

Our exposure to interest rate risk primarily relates to excess cash invested in short-term instruments with original maturities of less than a year and bank borrowings that have a floating rate of interest.

Investments in both fixed rate and floating rate interest earning instruments carry a degree of interest rate risk. Fixed rate securities may have their fair market value adversely impacted due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fall short of expectations due to changes in interest rates, or we may suffer losses in principal if we have to sell securities which have declined in market value due to changes in interest rates. For example, as of December 31, 2020, we had RMB126.4 billion (US\$19.4 billion) short-term investments, with a weighted average duration of 0.5 year. A hypothetical one percentage point (100 basis-point) increase in interest rates would have resulted in a decrease of RMB552 million (US\$85 million) in the fair value of our short-term investments as of December 31, 2020. We have not been, and do not expect to be, exposed to material interest rate risks relating to our investment in short-term instruments, and therefore have not used any derivative financial instruments to manage such interest risk exposure.

Our exposure to interest rate risk also arises from our bank borrowings that have a floating rate of interest. The costs of floating rate borrowings may be affected by the fluctuations in the interest rates. We manage this risk by maintaining an appropriate mix between fixed and floating rate borrowings and through the use of interest rate swap contracts. In connection with the loan facilities entered into in June 2016, we entered into four interest rate swap agreements, which effectively convert the term loans from a variable interest rate to a fixed rate, thereby managing our exposure to changes in market interest rates under the term loans.

Foreign Exchange Risk

Most of our revenues and costs are denominated in RMB, while a portion of our cash and cash equivalents, restricted cash, short-term financial assets, long-term investments, long-term loans payable, notes payable and convertible senior notes are denominated in U.S. dollars. Any significant revaluation of RMB against the U.S. dollar may materially affect our cash flows, revenues, earnings and financial position, and the value of, and any dividends payable on, our ADS in U.S. dollars. See “Risk Factors—Risks Related to Doing Business in China—Fluctuation in exchange rates could have a material and adverse effect on our results of operations and the value of your [REDACTED]” In addition, we commenced operation in Japan in late 2007. To the extent we need to make capital injections into our Japan operation by converting U.S. dollars into Japanese Yen, we will be exposed to the fluctuations in the exchange rate between the U.S. dollar and the Japanese Yen. We have not used any derivative financial instruments to hedge exposure to foreign exchange risk. The value of your [REDACTED] in our ADSs will be affected by the exchange rate between U.S. dollar and Renminbi because the value of our business is effectively denominated in RMB, while our ADSs will be traded in U.S. dollars.

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The conversion of Renminbi into foreign currencies, including U.S. dollars, is based on rates set by the People’s Bank of China. The Renminbi has fluctuated against the U.S. dollar, at times significantly and unpredictably. It is difficult to predict how market forces or PRC or U.S. government policy may impact the exchange rate between Renminbi and the U.S. dollar in the future.

To the extent that we need to convert U.S. dollars into Renminbi for our operations, appreciation of the Renminbi against the U.S. dollar would have an adverse effect on the RMB amount we receive from the conversion. Conversely, if we decide to convert Renminbi into U.S. dollars for the purpose of making payments for dividends on our ordinary shares or ADSs, repay indebtedness denominated in U.S. dollars, or for other business purposes, appreciation of the U.S. dollar against the Renminbi would have a negative effect on the U.S. dollar amounts available to us.

As of December 31, 2019, we had RMB-denominated cash and cash equivalents, restricted cash and short-term investments of RMB122.0 billion, and U.S. dollar-denominated cash and cash equivalents, restricted cash and short-term investments of US\$2.8 billion. Assuming we had converted RMB122.0 billion into U.S. dollars at the exchange rate of RMB 6.9618 per US\$1.00 as of the end of 2019, our U.S. dollar cash balance would have been US\$20.3 billion. If the RMB had depreciated by 10% against the U.S. dollar, our U.S. dollar cash balance would have been US\$18.7 billion instead. In addition, we had U.S. dollar-denominated long-term loans payable, notes payable and convertible senior notes of US\$9.2 billion as of December 31, 2019. If the RMB had depreciated by 10% against the U.S. dollar, we would have experienced an increase of RMB6.4 billion in the value of our U.S. dollar-denominated long-term loans payable and notes payable as of December 31, 2019.

As of December 31, 2020, we had RMB-denominated cash and cash equivalents, restricted cash and short-term investments of RMB143.9 billion, and U.S. dollar-denominated cash and cash equivalents, restricted cash and short-term investments of US\$2.8 billion. Assuming we had converted RMB143.9 billion into U.S. dollars at the exchange rate of RMB6.5250 for US\$1.00 as of December 31, 2020, our U.S. dollar cash balance would have been US\$24.9 billion. If the RMB had depreciated by 10% against the U.S. dollar, our U.S. dollar cash balance would have been US\$22.6 billion instead. In addition, we had U.S. dollar-denominated short-term borrowings, long-term loans payable (including current portion), notes payable and convertible senior notes (including current portion) of US\$11.2 billion as of December 31, 2020. A hypothetical 10% increase in the exchange rate of the U.S. dollar against the RMB would have resulted in an increase of RMB7.3 billion (US\$1.1 billion) in the value of our U.S. dollar-denominated short-term borrowings, long-term loans payable (including current portion) notes payable and convertible senior notes (including current portion) as of December 31, 2020.

Credit Risk

Financial instruments that potentially subject us to significant concentration of credit risk primarily consist of cash and cash equivalents, restricted cash, debt investments, accounts receivable, contract assets, receivables from online payment agencies and amounts due from related parties. As of December 31, 2019, we had RMB147.4 billion in cash and cash equivalents, restricted cash and debt investments, 92% and 8% of which are held by financial institutions in the PRC and international financial institutions outside of the PRC, respectively. Our total cash and cash equivalents, restricted cash and debt investments held at three financial institutions in the PRC exceeded 10%, representing 24%, 21% and 18% of our total cash and cash equivalents, restricted cash, debt investments, as of December 31, 2019, respectively. As of December 31, 2020, we had RMB172.7 billion in cash and cash equivalents, restricted cash and debt investments, 90% and 10% of which are held by financial institutions in the PRC and international financial institutions outside of the PRC, respectively. Our

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total cash and cash equivalents, restricted cash and debt investments held at four financial institutions in the PRC exceeded 10%, representing 30%, 21%, 16% and 11% of our total cash and cash equivalents restricted cash, and debt investments as of December 31, 2020, respectively.

Accounts receivable and contract assets are typically unsecured and derived from revenue earned from customers and third-party agents in China, which are exposed to credit risk. The risk is mitigated by credit evaluations we perform on its customers and its ongoing monitoring process of outstanding balances. We maintain allowance for estimated and expected credit losses. As of December 31, 2018, 2019 and 2020, we had no single customer with a receivable balance exceeding 10% of the total accounts receivable balance. Amounts due from related parties are typically unsecured and we maintain allowance for estimated and expected credit losses.

Inflation

Inflation in China has not materially impacted our results of operations. According to the National Bureau of Statistics of China, the annual average percent changes in the consumer price index in China for 2018, 2019 and 2020 were 2.1%, 2.9% and 2.5%, respectively. The year-over-year percent change in the consumer price index for January 2019, 2020 and 2021 was an increase of 1.7%, an increase of 5.4% and a decrease of 0.3%, respectively. Although we have not been materially affected by inflation in the past, we can provide no assurance that we will not be affected in the future by higher rates of inflation in China. For example, certain operating costs and expenses, such as employee compensation and office operating expenses may increase as a result of higher inflation. Additionally, because a substantial portion of our assets consists of cash and cash equivalents and short-term investments, high inflation could significantly reduce the value and purchasing power of these assets. We are not able to hedge our exposure to higher inflation in China.

No Material Adverse Change

After due and careful consideration, our Directors confirm that except as disclosed in “—Impact of COVID-19 on Our Operations” and elsewhere in this document, up to the date of this document, there has been no material adverse change in our financial or trading position or prospects since December 31, 2020, and there has been no event since December 31, 2020 which would materially affect the information shown in our consolidated financial statements included in the Accountants’ Report in Appendix IA to this document.

Financial Information of YY Live

Baidu (Hong Kong) Limited, our wholly-owned subsidiary, and JOYY entered into a share purchase agreement on November 16, 2020, and subsequently amended the share purchase agreement on February 7, 2021. Pursuant to the agreement, we agreed to acquire JOYY’s domestic video-based entertainment live streaming business in China which is referred to as YY Live, for an aggregate purchase price of approximately US\$3.6 billion in cash, subject to certain adjustments. Approximately US\$2.0 billion of the purchase price would be payable to JOYY at the closing of the acquisition, subject to certain adjustments. After the closing, subject to certain conditions and adjustments, approximately US\$1.0 billion would be payable no later than the later of the closing and April 30, 2021, and approximately US\$300 million would be paid no later than the later of the closing of the acquisition and June 30, 2021, and a maximum amount of US\$300 million would be payable subject to the achievement of certain conditions. The acquisition has been substantially completed, with certain customary matters remaining to be completed in the near future. See “Recent Developments—Business Updates.”

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YY Live is a video-based live streaming platform in China offering content such as music and dance shows, talk shows, outdoor activities, sports and anime. Users of YY Live may enjoy the live streaming services on YY Live platform through YY mobile app, YY.com website and PC YY. Users access content on the platform free of charge, but are charged for purchases of virtual items. YY Live generates revenue from the sales of in-channel virtual items used on its platform as tips for live streaming hosts. We may be subject to a variety of risks associated with the online live streaming business of YY Live. See “Risk Factors—Risks Related to Our Business and Industry—We face risks associated with our proposed acquisition of YY Live and its online live streaming business.”

Selected Statements of Operations items

Revenues. YY Live generates (i) live streaming revenue from the sales of in-channel virtual items used on its live streaming platform and (ii) other revenue mainly from memberships services and advertising revenue.

Cost of revenues. Cost of revenues of YY Live consists primarily of (i) revenue sharing fees and content costs including payments to various talent agencies and performers, and content providers, (ii) bandwidth costs, (iii) payment handling costs, (iv) salaries and benefits, (v) technical service fee, (vi) depreciation and amortization expense for servers, other equipment and intangibles directly related to operating the platform, (vii) share-based compensation, (viii) other taxes and surcharges and (ix) other costs.

Sales and marketing expenses. Sales and marketing expenses of YY Live consist primarily of (i) advertising and promotion expenses and (ii) salaries and benefits for sales and marketing personnel.

Research and development expenses. Research and development expenses of YY Live consist primarily of (i) salary and welfare for research and development personnel, (ii) share-based compensation for research and development personnel, (iii) depreciation of office premise and servers utilized by research and development personnel, and (iv) rental expenses..

General and administrative expenses. General and administrative expenses of YY Live consist primarily of (i) share-based compensation for management and administrative personnel, (ii) salary and welfare for general and administrative personnel, (iii) impairment charge, and (iv) professional service fees.

Other income. Other income of YY Live primarily consists of government grants in connection with its contributions to tax refund.

Taxation

PRC

YY Live’s consolidated entities in China are governed by the Enterprise Income Tax Law (“EIT Law”), which became effective on January 1, 2008. Pursuant to the EIT Law and its implementation rules, enterprises in China are generally subject to tax at a statutory rate of 25%. Certified High and New Technology Enterprises (“HNTE”) are entitled to a favorable tax rate of 15%, but need to re-apply every three years. During this three-year period, an HNTE must conduct a qualification self-review each year to ensure it meets the HNTE criteria and is eligible for the 15% preferential tax rate for that year. If an HNTE fails to meet the criteria for qualification in any year, the enterprise cannot enjoy the preferential tax rate in that year, and must instead use the regular 25% EIT rate. Enterprises qualified as software enterprises can enjoy an income tax exemption for two years beginning with their

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first profitable year and a 50% tax reduction to the applicable tax rate for the subsequent three years. An entity that qualifies as a “Key National Software Enterprise” (a “KNSE”) is entitled to a further reduced preferential income tax rate of 10%. A number of YY Live’s consolidated entities qualified as HNTE or KNSE and enjoyed preferential income tax rates for the periods reported.

According to a policy promulgated by the State Tax Bureau of the PRC and effective from 2008 onwards, enterprises engaged in research and development activities are entitled to claim an additional tax deduction amounting to 50% of the qualified research and development expenses incurred in determining its tax assessable profits for that year. The additional tax deducting amount of the qualified research and development expenses have been increased from 50% to 75%, effective from 2018 to 2020, according to a new tax incentives policy promulgated by the State Tax Bureau of the PRC in September 2018 (“Super Deduction”). A number of YY Live’s consolidated entities claimed the Super Deduction in ascertaining the tax assessable profits for the periods reported.

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Results of Operations

The following table sets forth a summary of YY Live’s results of operations for the periods indicated. The period-to-period comparisons of results of operations should not be relied upon as indicative of future performance. The financial statements of YY Live were prepared on a carve-out basis and the presentation may not necessarily reflect the financial position, the results of operation or the cash flows of YY Live had it actually existed on a stand-alone basis during the years presented. For more details of the preparation basis of the financial statements of YY Live, please refer to note 1(c) to Appendix IB Accountant’s Report of YY Live.

	Year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Net revenues:				
Live streaming	10,073,347	10,721,295	9,664,816	1,481,198
Others	199,349	241,243	285,470	43,750
Total net revenues	10,272,696	10,962,538	9,950,286	1,524,948
Cost of revenues ⁽¹⁾	(5,357,786)	(5,703,255)	(5,342,372)	(818,754)
Gross profit	4,914,910	5,259,283	4,607,914	706,194
Operating expenses⁽¹⁾ :				
Sales and marketing expenses	(498,211)	(506,605)	(581,091)	(89,056)
Research and development expenses	(412,046)	(393,100)	(362,406)	(55,541)
General and administrative expense	(203,678)	(198,450)	(152,866)	(23,428)
Total operating expenses	(1,113,935)	(1,098,155)	(1,096,363)	(168,025)
Other income	67,018	203,408	166,272	25,482
Operating income	3,867,993	4,364,536	3,677,823	563,651
Interest income and investment income	1,565	2,455	2,899	444
Income before income tax expenses	3,869,558	4,366,991	3,680,722	564,095
Income tax expenses	(580,935)	(666,311)	(539,435)	(82,672)
Net income	3,288,623	3,700,680	3,141,287	481,423

Note:

(1) Share-based compensation expenses was allocated in cost of revenues and operating expenses as follows:

Cost of revenues	17,494	8,655	11,241	1,723
Research and development expenses	97,945	56,960	45,861	7,029
Sales and marketing expenses	2,473	1,799	1,276	196
General and administrative expenses	75,284	72,913	34,344	5,263

Year Ended December 31, 2020 Compared to Year Ended December 31, 2019

Total net revenues. YY Live’s total net revenues decreased by 9% from RMB10,962.5 million in 2019 to RMB9,950.3 million (US\$1,524.9 million) in 2020.

Live streaming revenue. Live streaming revenue of YY Live decreased by 10% from RMB10,721.3 million in 2019 to RMB9,664.8 million (US\$1,481.2 million) in 2020, due to the combined effect of increase in number of paying users from 9.4 million in 2019 to 10.3 million in 2020 and decrease of ARPU from RMB1,138 in 2019 to RMB937 in 2020 due to COVID-19’s impact. YY Live’s number of paying users during a given period is the cumulative number of registered user accounts that have purchased virtual items or other products and services on YY Live at least once

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during the relevant period. YY Live’s ARPU is calculated by dividing total live streaming revenue during a given period by the number of paying users for that period.

Other revenue. Other revenue of YY Live increased by 18% from RMB241.2 million in 2019 to RMB285.5 million (US\$43.8 million) in 2020, which was primarily due to an increase in membership fees.

Cost of revenues. Cost of revenues of YY Live decreased by 6% from RMB5,703.3 million in 2019 to RMB5,342.4 million (US\$818.8 million) in 2020. This decrease was primarily due to the decrease of revenue sharing fees resulting from the decreased revenue.

Sales and marketing expenses. Sales and marketing expenses of YY Live increased by 15% from RMB506.6 million in 2019 to RMB581.1 million (US\$89.1 million) in 2020. This increase was primarily due to increase of promotional expenses for user acquisition.

Research and development expenses. Research and development expenses of YY Live decreased by 8% from RMB393.1 million in 2019 to RMB362.4 million (US\$55.5 million) in 2020, primarily due to the decrease of share-based compensation related to research and development personnel resulted from less new grants made.

General and administrative expenses. General and administrative expenses of YY Live decreased by 23% from RMB198.5 million in 2019 to RMB152.9 million (US\$23.4 million) in 2020, primarily due to the decrease of share-based compensation resulted from less grant made.

Other income. Other income of YY Live was RMB166.3 million (US\$25.5 million) in 2020, compared to an other income of RMB203.4 million in 2019, primarily attributable to the decrease of government grants received.

Income tax expenses. Income tax expenses of YY Live decreased by 19% from RMB666.3 million in 2019 to RMB539.4 million (US\$82.7 million) in 2020, primarily due to lowered taxable income.

Net income. As a result of the foregoing, YY Live generated a net income of RMB3,141.3 million (US\$481.4 million) in 2020, representing a 15% decrease from RMB3,700.7 million in 2019.

Year Ended December 31, 2019 Compared to Year Ended December 31, 2018

Total net revenues. YY Live’s total net revenues increased by 7% from RMB10,272.7 million in 2018 to RMB10,962.5 million in 2019, primarily due to the growth in live streaming revenues.

Live streaming revenue. YY Live’s live streaming revenue increased by 6% from RMB10,073.3 million in 2018 to RMB10,721.3 million in 2019, due to the combined effect of increase in the number of paying users on YY Live from 8.6 million in 2018 to 9.4 million in 2019 and decrease of ARPU from RMB1,170 in 2018 to RMB1,138 in 2019.

Other revenue. YY Live’s other revenues increased by 21% from RMB199.3 million in 2018 to RMB241.2 million in 2019, which was primarily due to an increase in membership fees.

Cost of revenues. Cost of revenues of YY Live increased by 6% from RMB5,357.8 million in 2018 to RMB5,703.3 million in 2019, which was largely in line with the increase in total revenues.

Sales and marketing expenses. Sales and marketing expenses of YY Live increased by 2% from RMB498.2 million in 2018 to RMB506.6 million in 2019.

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Research and development expenses. Research and development expenses of YY Live decreased by 5% from RMB412.0 million in 2018 to RMB393.1 million in 2019, primarily due to the decrease of share-based compensation related to research and development personnel resulted from less new grants made.

General and administrative expenses. General and administrative expenses of YY Live decreased by 3% from RMB203.7 million in 2018 to RMB198.5 million in 2019.

Other income. Other income of YY Live was RMB203.4 million in 2019, increasing by 204% from RMB67.0 million in 2018, primarily due to an increase in government grants received.

Income tax expenses. Income tax expenses of YY Live increased by 15% from RMB580.9 million in 2018 to RMB666.3 million in 2019, in line with the taxable income growth.

Net income. As a result of the foregoing, YY Live generated a net income of RMB3,700.7 million in 2019, representing a 13% increase from RMB3,288.6 million in 2018.

Liquidity and Capital Resources

As of December 31, 2020, YY Live had RMB206.2 million (US\$31.6 million) cash and cash equivalents. YY Live’s cash and cash equivalents consist of cash on hand and investments in interest bearing liquid investments. During the Track Record Period, YY Live have financed its operations primarily through cash flows from operations.

Cash Flows

The following table sets forth a summary of YY Live’s cash flows for the periods indicated:

	Year ended December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Net cash provided by operating activities	3,787,985	3,815,151	3,093,275	474,066
Net cash (used in) provided by investing activities	(26,404)	(192,783)	45,208	6,928
Net cash used in financing activities	(3,723,605)	(3,600,884)	(3,002,014)	(460,079)
Net increase in cash and cash equivalents	37,976	21,484	136,469	20,915
Cash and cash equivalents at the beginning of the year	10,262	48,238	69,722	10,685
Cash and cash equivalents at the end of the year	<u>48,238</u>	<u>69,722</u>	<u>206,191</u>	<u>31,600</u>

Operating Activities

Net cash provided by operating activities amounted to RMB3,093.3million (US\$474.1 million) in 2020. The difference between net cash provided by operating activities and net income of RMB3,141.3million (US\$481.4 million) was primarily due to an increase in accounts receivable of RMB128.0 million (US\$19.6 million) and a decrease in deferred revenue of RMB58.3 million (US\$8.9 million), partially offset by a non-cash item adjustment in share-based compensation of RMB92.7 million (US\$14.2 million).

Net cash provided by operating activities amounted to RMB3,815.2 million in 2019. The difference between net cash provided by operating activities and net income of RMB3,700.7 million was primarily due to a non-cash item adjustment in share-based compensation of RMB140.3 million, partially offset by a decrease in accrued liabilities and other current liabilities of RMB31.7 million.

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Net cash provided by operating activities amounted to RMB3,788.0 million in 2018. The difference between net cash provided by operating activities and net income of RMB3,288.6 million was primarily due to a non-cash item adjustment in share-based compensation of RMB193.2 million and an increase in accrued liabilities and other current liabilities of RMB208.6 million, partially offset by a decrease in deferred revenue of RMB23.4 million.

Investing Activities

Net cash provided by investing activities amounted to RMB45.2 million (US\$6.9 million) in 2020. Net cash provided by investing activities primarily resulted from maturities of short-term investments of RMB130.0 million (US\$19.9 million), partially offset by placement of short-term investments of RMB60 million (US\$9.2 million).

Net cash used in investing activities amounted to RMB192.8 million in 2019. Net cash used in investing activities primarily resulted from placement of short-term investments of RMB121.8 million and purchase of property and equipment of RMB72.7 million.

Net cash used in investing activities amounted to RMB26.4 million in 2018. Net cash used in investing activities primarily resulted from purchase of property and equipment of RMB27.2 million.

Financing Activities

Net cash used in financing activities was RMB3,002.0 million (US\$460.1 million) in 2020, attributable to contribution to JOYY.

Net cash used in financing activities was RMB3,600.9 million in 2019, attributable to contribution to JOYY.

Net cash used in financing activities was RMB3,723.6 million in 2018, attributable to contribution to JOYY.

For more discussion on how the contributions to JOYY in the cash flows were derived, please refer to note 1(c) to Appendix IB Accountant’s Report of YY Live.

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Working Capital

The following table sets forth a breakdown of YY Live’s current assets and liabilities as of the dates indicated.

	As of December 31,			
	2018	2019	2020	
	RMB	RMB	RMB	US\$
	(in thousands)			
Current assets:				
Cash and cash equivalents	48,238	69,722	206,191	31,600
Short-term investments	—	70,327	—	—
Accounts receivable, net	74,253	79,430	206,580	31,660
Amounts due from related parties	1,537	1,087	456	70
Prepayments and other current assets	25,785	39,205	45,001	6,897
Total current assets	149,813	259,771	458,228	70,227
Current liabilities				
Income taxes payable	—	3,459	21,014	3,221
Accrued liabilities and other current liabilities	936,667	904,918	907,692	139,110
Advances from customers	80,504	97,928	80,761	12,377
Deferred revenue	425,226	355,549	326,702	50,069
Total current liabilities	1,442,397	1,361,854	1,336,169	204,777

YY Live recorded net current liabilities of RMB1,292.6 million, RMB1,102.1 million and RMB877.9 million (US\$134.6 million) as of December 31, 2018, 2019 and 2020, respectively, primarily due to accrued liabilities and other current liabilities and deferred revenue.

Certain Balance Sheet Items

Accrued liabilities and other current liabilities

YY Live’s accrued liabilities and other current liabilities primarily include accrued revenue sharing fees, accrued salaries and welfare and accrued promotion expenses. YY Live’s accrued liabilities and other current liabilities increased by 0.3% from RMB904.9 million as of December 31, 2019 to RMB907.7 million (US\$139.1 million) as of December 31, 2020. YY Live’s accrued liabilities and other current liabilities decreased by 3.4% from RMB936.7 million as of December 31, 2018 to RMB904.9 million as of December 31, 2019, primarily due to the decrease of revenue sharing payable to live streaming talent agencies and performers.

Deferred revenue, current

YY Live’s deferred revenue primarily consists of prepaid subscriptions under membership program and unamortized revenue from virtual items. YY Live’s current deferred revenue decreased by 8% from RMB355.5 million as of December 31, 2019 to RMB326.7 million (US\$50.1 million) as of December 31, 2020, primarily due to decrease in live streaming revenue. YY Live’s current deferred revenue decreased by 16% from RMB425.2 million as of December 31, 2018 to RMB355.5 million as of December 31, 2019, primarily due to one upfront recharge promotion activity conducted in 2018 year end and no such activity in 2019 year end.

Advances from customers

YY Live’s advances from customers primarily consist of prepayments from users in the form of virtual currency that are not yet consumed or converted into virtual items. YY Live’s advances from

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customers decreased by 18% from RMB97.9 million as of December 31, 2019 to RMB80.8 million (US\$12.4 million) as of December 31, 2020, primarily due to the decrease of live streaming revenue. YY Live’s advances from customers increased by 22% from RMB80.5 million as of December 31, 2018 to RMB97.9 million as of December 31, 2019, primarily due to the increase of live streaming revenue.

Accounts Receivable, net

YY Live’s accounts receivable, net mainly consist of amounts due from live streaming service users to be collected from payment platforms. YY Live’s accounts receivable, net increased by 160% from RMB79.4 million as of December 31, 2019 to RMB206.6 million (US\$31.7 million) as of December 31, 2020, primarily due to delayed withdrawal from third party online payment platforms. YY Live’s accounts receivable, net increased by 7% from RMB74.3 million as of December 31, 2018 to RMB79.4 million as of December 31, 2019, which was largely in line with the increase in total revenues.

Listing Expenses

We expect to incur listing expenses of up to approximately RMB[REDACTED] million (assuming that the [REDACTED] is conducted at the indicative [REDACTED] per [REDACTED] of HK\$[REDACTED] for both [REDACTED] and [REDACTED] and the [REDACTED] is not exercised). We expect to recognize RMB[REDACTED] million as general and administrative expenses in the fiscal year ending December 31, 2021 and RMB[REDACTED] million as a deduction in equity directly.

Unaudited Pro Forma Adjusted Net Tangible Assets

The following unaudited pro forma adjusted net tangible assets prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules are set out below for the purpose of illustrating the effect of the [REDACTED] on the consolidated net tangible assets attributable to the ordinary shareholders of the Company as at December 31, 2020 as if the [REDACTED] had taken place on that date.

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The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Company, had the [REDACTED] been completed as of December 31, 2020 or at any future dates. It is prepared based on the consolidated net tangible assets attributable to ordinary shareholders of the Company as of December 31, 2020 as derived from the Company’s consolidated financial statements for the year ended December 31, 2020 included in Appendix IA, and adjusted as described below.

	Unaudited consolidated net tangible assets attributable to ordinary shareholders of the Company as of December 31, 2020	Estimated [REDACTED] from the [REDACTED]	Unaudited pro forma adjusted net tangible assets attributable to ordinary shareholders of the Company as of December 31, 2020	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per ADS	Unaudited pro forma adjusted net tangible assets per Share	Unaudited pro forma adjusted net tangible assets per ADS
	(in millions of RMB) (Note 1)	(in millions of RMB) (Note 2)	(in millions of RMB)	RMB (Note 3)	RMB (Note 4)	HK\$ (Note 5)	HK\$ (Note 5)
Based on an indicative [REDACTED] of HK\$[REDACTED] per [REDACTED] . .	158,426	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Notes:

- (1) The unaudited consolidated net tangible assets attributable to ordinary shareholders of the Company as of December 31, 2020 is arrived at after deducting Intangible assets, net of RMB2,022 million and Goodwill of RMB22,248 million from the Total Baidu, Inc. shareholders’ equity of RMB182,696 million as of December 31, 2020, as shown in the Accountants’ Report as set out in Appendix IA to the [REDACTED]. For the avoidance of doubt, “Licensed copyrights, net” and “Produced content, net” were not deducted for the purpose of calculating the unaudited consolidated net tangible assets attributable to ordinary shareholders of the Company.
[REDACTED]
- (3) The unaudited pro forma adjusted net tangible assets attributable to ordinary shareholders of the Company per Share is calculated based on a total of [REDACTED] Shares that will be in issue assuming that the [REDACTED] have been completed on December 31, 2020, and after having accounted for the Share Subdivision but do not take into account any [REDACTED] of [REDACTED] upon exercise of the [REDACTED], the Shares to be issued pursuant to the Share Incentive Plans, including pursuant to the exercise of options or other awards that have been or may be granted from time to time and any issuance or repurchase of Shares by the Company.
- (4) The unaudited pro forma adjusted net tangible assets attributable to ordinary shareholders of the Company per ADS is calculated based on that eight Shares equals one ADS.
- (5) The unaudited pro forma adjusted net tangible assets per Share and the unaudited pro forma adjusted net tangible assets per ADS are converted into Hong Kong dollars at an exchange rate of RMB0.8416 to HK\$1.00.
- (6) Assuming the Company’s acquisition of YY Live (as defined in the [REDACTED]) had been completed on December 31, 2020, the unaudited pro forma adjusted net tangible assets per Share and the unaudited pro forma adjusted net tangible assets per ADS would have been RMB[REDACTED] or HK\$[REDACTED] and RMB[REDACTED] or HK\$[REDACTED], respectively. No adjustment has been made to reflect any trading result, or other transactions of the Group entered into subsequent to December 31, 2020.