

Baidu Announces Second Quarter 2020 Results

BEIJING, China, August 13, 2020 – Baidu, Inc. (NASDAQ: BIDU) (“Baidu” or the “Company”), a leading search engine, knowledge and information centered Internet platform and AI company, today announced its unaudited financial results for the second quarter ended June 30, 2020¹.

“With COVID-19 becoming more manageable in China, Baidu’s business is steadily rebounding. We are pleased that in-app revenue grew in the second quarter, despite a challenging macro environment, further validating our strategy to make Baidu App a super app through AI-powered building blocks and marketing cloud platform.” said Robin Li, Co-founder and CEO of Baidu. “Baidu’s new AI businesses, including cloud, smart devices and smart transportation, saw double-digit growth in the second quarter and stand to become an important revenue driver in the years to come.”

“In addition to investing in new AI businesses, Baidu is also diversifying our revenue streams through membership, online games and others to increase the ARPU of our existing traffic.” said Herman Yu, CFO of Baidu. “The healthy growth of Baidu App and new AI businesses have enabled Baidu Core’s adjusted EBITDA margin to reach 41% in the second quarter. We plan to continue heavy investments in technology to maximize Baidu’s future growth potential.”

Second Quarter 2020 Financial Highlights

| (In millions except per ADS, unaudited) | Baidu, Inc. | | | | | |
|--|--------------------|-------------|-------------|-------------|--------------|---------------|
| | Q2 | Q1 | Q2 | | YOY | QOQ |
| | 2019 | 2020 | 2020 | | | |
| | RMB | RMB | RMB | US\$ | | |
| Total revenues | 26,326 | 22,545 | 26,034 | 3,685 | <i>(1%)</i> | <i>15%</i> |
| Operating income (loss) | 233 | (437) | 3,644 | 516 | <i>1464%</i> | <i>-</i> |
| Operating income (non-GAAP)² | 1,955 | 1,437 | 5,605 | 793 | <i>187%</i> | <i>290%</i> |
| Net income to Baidu | 2,412 | 41 | 3,579 | 507 | <i>48%</i> | <i>8629%</i> |
| Net income to Baidu (non-GAAP)² | 3,635 | 3,082 | 5,082 | 719 | <i>40%</i> | <i>65%</i> |
| Diluted earnings per ADS | 6.57 | 0.02 | 10.31 | 1.46 | <i>57%</i> | <i>51450%</i> |
| Diluted earnings per ADS (non-GAAP)² | 10.11 | 8.84 | 14.73 | 2.08 | <i>46%</i> | <i>67%</i> |

¹ Unless otherwise noted, all translations from RMB to U.S. dollars are made at a rate of RMB7.0651 to US\$1.00, the exchange rate in effect as of June 30, 2020 as set forth in the H.10 statistical release of the Board of Governors of the Federal Reserve System. Translations are provided solely for the convenience of the reader.

² Non-GAAP measures are defined in Non-GAAP Financial Measures section. Also see the table captioned “Reconciliations of Non-GAAP Financial Measures to the Nearest Comparable GAAP Measures” for more details.

| | | | | | | |
|-------------------------------------|-------|-------|-------|-----|------|------|
| Adjusted EBITDA ² | 3,355 | 2,852 | 7,015 | 993 | 109% | 146% |
| Adjusted EBITDA margin | 13% | 13% | 27% | 27% | | |

| (In millions, unaudited) | Baidu Core | | | | | |
|---|-------------------|-------------|-------------|-------------|------------|------------|
| | Q2 | Q1 | Q2 | | YOY | QOQ |
| | 2019 | 2020 | 2020 | | | |
| | RMB | RMB | RMB | US\$ | | |
| Total revenues | 19,540 | 15,268 | 18,926 | 2,679 | (3%) | 24% |
| Operating income | 2,109 | 1,848 | 4,966 | 703 | 135% | 169% |
| Operating income (non-GAAP) ² | 3,485 | 3,348 | 6,482 | 917 | 86% | 94% |
| Net income to Baidu Core | 3,731 | 1,698 | 4,424 | 626 | 19% | 161% |
| Net income to Baidu Core (non-GAAP) ² | 4,740 | 4,519 | 5,656 | 801 | 19% | 25% |
| Adjusted EBITDA ² | 4,766 | 4,641 | 7,771 | 1,100 | 63% | 67% |
| Adjusted EBITDA margin | 24% | 30% | 41% | 41% | | |

Other Highlights

Corporate

- As part of corporate social responsibilities, Baidu is partnering with healthcare professionals and government organizations to tackle public health risks and improve the quality of life, using Baidu AI for public health monitoring, drug development and disease diagnosis. Baidu AI healthcare solutions have been adopted by nearly 2,000 hospitals and primary healthcare institutions across 27 provinces.
- Baidu returned US\$540 million to shareholders under the 2020 Share Repurchase Program in the second quarter, bringing the Company's cumulative repurchase for the last two years to approximately US\$1.9 billion.
- Baidu's board of directors recently approved a change to the 2020 Share Repurchase Program, increasing the repurchase authorization from US\$1 billion to US\$3 billion, which is effective through December 31, 2022.

Mobile Ecosystem

- Baidu App daily active users ("DAUs") reached 204 million in June 2020, adding 16 million users in the last 12 months.
- As a leading Internet platform for content and services, Baidu has attracted a large variety of knowledge and information-based videos to its platform, including live and short videos. Over 800 sessions of topical live streaming were broadcasted in the second quarter, with sessions like *Baidu Wiki Virtual Zoo*, *Summer Art Festival* and *Wandering through Civilization Season 2*, attracting over 40,000,000 views.
- Baijiahao ("BJH") publisher accounts reached 3.4 million, up 52% year over year, in June 2020. The large scale of Baidu's platform is drawing more original content creators to join

BJH, which allows easy sharing of content across Baidu App, Haokan, Quanmin and Baidu's full set of knowledge products.

- Baidu Smart Mini Program ("SMP") is becoming more lively with the number of SMPs joining Baidu's network growing over five folds in the last year, and SMP monthly active users ("MAUs") on Baidu App reaching 339 million, up 25% year over year. App developers are migrating to SMP, which enables users native-app like, closed-loop experience on third-party content and services, without having to leave Baidu and download the host apps.
- Revenue from Baidu Managed Page increased to approximately 30% of Baidu Core's online marketing services revenue in the second quarter of 2020. Merchants with HTML5 websites across many industries are switching to Managed Page, as the landing page for their search results.

DuerOS

- In June 2020, DuerOS monthly voice queries on Xiaodu devices reached 2.8 billion, nearly doubling from last year, and DuerOS total monthly voice queries reached 5.8 billion, up 57% from last year.
- DuerOS skills store now offers 4,000 skills in wide ranging genres, including education, video, online game and live streaming. DuerOS developer community has grown to over 42,000 members.
- JD.com announced that Xiaodu series of smart displays and smart speakers was the best-selling in the smart speaker category on its platform during this year's *June 18 Shopping Festival*.

Cloud, AI Services & AI Platform

- Baidu formed a strategic partnership with China National Building Materials Group (CNBM Group), the parent of 13 listed companies. CNBM Group plans to use Baidu AI PaaS, equipped with big data and IoT edge computing capabilities, to provide intelligent logistics, intelligent factory and industrial autonomous driving. For example, CNBM Group plans to use Baidu AI PaaS paired with Baidu intelligent map to improve the routing efficiency of its logistics vehicles and track the vehicles whereabouts to optimize operational costs and increase traffic safety.
- Baidu's AI open platform, built on top of Baidu Cloud, offers over 260 AI capabilities, which are tapped by over 2.1 million developers.
- At the *World Artificial Intelligence Conference*, Baidu's natural language processing framework ERNIE (Enhanced Representation through kNowledge IntEgration) earned the distinction of the SAIL (Super AI Leader) Award, recognizing inspiring technology breakthroughs, application innovations and AI projects that change people's lives.

Apollo

- The Apollo robotaxi operations in Beijing, Changsha and Cangzhou have expanded into larger networks and more complex road conditions, such as downtown streets.

- In May 2020, Baidu completed the 145,000 square feet *Apollo Park* in Beijing, an autonomous driving and V2X testing facility that supports testing, operational command center, cloud control system, vehicle warehousing, maintenance and calibration.

iQIYI

- iQIYI subscribers reached 104.9 million, up 4% year over year, in June 2020, and membership revenue was up 19% year over year. iQIYI's large subscriber base further strengthens iQIYI's foundation to produce entertainment blockbuster originals.

Second Quarter 2020 Results

Total revenues reached RMB 26.0 billion (\$3.69 billion), decreasing 1% year over year. Online marketing revenues were RMB 17.7 billion (\$2.50 billion), decreasing 8% year over year. Other revenues were RMB 8.3 billion (\$1.18 billion), increasing 18% year over year, driven by the strong growth of iQIYI membership and Baidu's cloud and smart transportation solutions.

Revenue from Baidu Core reached RMB 18.9 billion (\$2.68 billion), decreasing 3% year over year. **Revenue from iQIYI** reached RMB 7.4 billion (\$1.05 billion), up 4% year over year. iQIYI membership revenue grew 19% year over year, partially offset by online advertising revenue declining 28% year over year.

Cost of revenues was RMB 13.1 billion (\$1.86 billion), decreasing 19% year over year, primarily due to a decrease in traffic acquisition costs, sales tax and surcharges, and costs of goods sold. The decrease in traffic acquisition costs reflected decreasing union revenues, as the Company focused on optimizing profitability over revenue growth.

Selling, general and administrative expenses were RMB 4.4 billion (\$625 million), decreasing 16% year over year, primarily due to decreased marketing spending and personnel related expenses.

Research and development expenses were RMB 4.8 billion (\$685 million), increasing 2% year over year.

Operating income was RMB 3.6 billion (\$516 million) and operating margin was 14%. **Baidu Core operating income** was RMB 5.0 billion (\$703 million) and Baidu Core operating margin was 26%.

Non-GAAP operating income was RMB 5.6 billion (\$793 million), and non-GAAP operating margin was 22%. **Non-GAAP Baidu Core operating income** was RMB 6.5 billion (\$917 million), and non-GAAP Baidu Core operating margin was 34%.

Total other income was RMB 366 million (\$53 million), decreasing 70% year over year, primarily due to loss from equity method investments, which is booked a quarter in arrears and reflects the impact of COVID-19 on its investees.

Income tax expense was RMB 1.2 billion (\$174 million), which included tax withholding accrual for dividend distribution to offshore entities, compared to RMB 416 million in Q2 2019.

Net income attributable to Baidu was RMB 3.6 billion (\$507 million), and diluted earnings per ADS was RMB 10.31 (\$1.46). **Net income attributable to Baidu Core** was RMB 4.4 billion (\$626 million). **Non-GAAP net income attributable to Baidu** was RMB 5.1 billion (\$719 million), and non-GAAP net margin was 20%. Non-GAAP diluted earnings per ADS amounted to RMB 14.73 (\$ 2.08). **Non-GAAP net income attributable to Baidu Core** was RMB 5.7 billion (\$801 million), and non-GAAP net margin for Baidu Core was 30%.

Adjusted EBITDA was RMB 7.0 billion (\$993 million) and adjusted EBITDA margin was 27%. Adjusted EBITDA for Baidu Core was RMB 7.8 billion (\$1.1 billion) and adjusted EBITDA margin for Baidu Core was 41%.

As of June 30, 2020, **cash, cash equivalents, restricted cash and short-term investments** were RMB 154.1 billion (\$21.80 billion), and **cash, cash equivalents, restricted cash and short-term investments excluding iQIYI** were RMB 144.6 billion (\$20.46 billion). **Free cash flow** was RMB 7.3 billion (\$1.04 billion). **Free cash flow excluding iQIYI** was RMB 8.8 billion (\$1.24 billion).

For more information on the adoption of ASU 2019-02 beginning January 1, 2020, in accordance with the new accounting standard, please see explanation under “Non-GAAP Financial Measures.”

Financial Guidance

For the third quarter of 2020, Baidu expects revenues to be between RMB 26.3 billion (\$3.7 billion) and RMB 28.7 billion (\$4.1 billion), representing a growth rate of -6% to 2% year over year, which assumes that Baidu Core revenue will grow between -7% and 3% year over year. The COVID-19 situation in China is evolving, and business visibility is very limited. The above forecast reflects Baidu’s current and preliminary view, which is subject to substantial uncertainty.

Conference Call Information

Baidu's management will hold an earnings conference call at 9:15 PM on August 13, 2020, U.S. Eastern Time (9:15 AM on August 14, 2020, Beijing/Hong Kong Time).

Please register in advance of the conference call using the link provided below. Upon registering, you will be provided with participant dial-in numbers, Direct Event passcode and unique registrant ID by email.

For pre-registration, please click <http://apac.directeventreg.com/registration/event/2568424>. It will automatically direct you to the registration page of "Baidu Q2 2020 Earnings Conference Call", where you may fill in your details for RSVP. If it requires you to enter a participant conference ID, please enter "2568424".

In the 10 minutes prior to the call start time, you may use the conference access information (including dial-in number(s), Direct Event passcode and unique registrant ID) provided in the confirmation email that you have received following your pre-registration.

Additionally, a live and archived webcast of this conference call will be available at <http://ir.baidu.com>.

A replay of the conference call may be accessed by phone at the following number until August 21, 2020:

International: +61 2 8199 0299

Passcode: 2568424

About Baidu

Baidu, Inc. is a leading search engine, knowledge and information centered Internet platform and AI company. The Company's mission is to make the complicated world simpler through technology. Baidu's ADSs trade on the NASDAQ Global Select Market under the symbol "BIDU". Currently, ten ADSs represent one Class A ordinary share.

Contacts

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Safe Harbor Statement

This announcement contains forward-looking statements. These statements are made under the "safe harbor" provisions of the U.S. Private Securities Litigation Reform Act of 1995. These forward-looking statements can be identified by terminology such as "will," "expects," "anticipates," "future," "intends," "plans," "believes," "estimates," "confident" and similar statements. Among other things, the outlook for the third quarter of 2020, quotations from management in this announcement, as well as Baidu's and other parties' strategic and operational plans, contain forward-looking statements. Baidu may also make written or oral forward-looking statements in its periodic reports to the U.S. Securities and Exchange Commission, in its annual report to shareholders, in press releases and other written materials and in oral statements made by its officers, directors or employees to third parties. Statements that are not historical facts, including but not limited to statements about Baidu's beliefs and expectations, are forward-looking statements. Forward-looking statements involve inherent risks and uncertainties. A number of

factors could cause actual results to differ materially from those contained in any forward-looking statement, including but not limited to the following: Baidu's growth strategies; its future business development, including development of new products and services; its ability to attract and retain users and customers; competition in the Chinese Internet search and newsfeed market; competition for online marketing customers; changes in the Company's revenues and certain cost or expense items as a percentage of its revenues; the outcome of ongoing, or any future, litigation or arbitration, including those relating to intellectual property rights; the expected growth of the Chinese-language Internet search and newsfeed market and the number of Internet and broadband users in China; Chinese governmental policies relating to the Internet and Internet search providers, and general economic conditions in China and elsewhere. Further information regarding these and other risks is included in the Company's annual report on Form 20-F and other documents filed with the Securities and Exchange Commission. Baidu does not undertake any obligation to update any forward-looking statement, except as required under applicable law. All information provided in this press release and in the attachments is as of the date of the press release, and Baidu undertakes no duty to update such information, except as required under applicable law.

Non-GAAP Financial Measures

To supplement Baidu's consolidated financial results presented in accordance with GAAP, Baidu uses the following non-GAAP financial measures: non-GAAP operating income (loss), non-GAAP operating margin, non-GAAP net income (loss) attributable to Baidu, non-GAAP net margin, non-GAAP diluted earnings per ADS, adjusted EBITDA, adjusted EBITDA margin and free cash flow. The presentation of these non-GAAP financial measures is not intended to be considered in isolation or as a substitute for the financial information prepared and presented in accordance with GAAP.

Baidu believes that these non-GAAP financial measures provide meaningful supplemental information regarding its performance and liquidity by excluding certain items that may not be indicative of its recurring core business operating results, such as operating performance excluding not only non-cash charges, but also other items that are infrequent or unusual in nature. The Company believes that both management and investors benefit from referring to these non-GAAP financial measures in assessing its performance and when planning and forecasting future periods. These non-GAAP financial measures also facilitate management's internal comparisons to Baidu's historical performance and liquidity. The Company believes these non-GAAP financial measures are useful to investors in allowing for greater transparency with respect to supplemental information used by management in its financial and operational decision making. A limitation of using these non-GAAP financial measures is that these non-GAAP measures exclude certain items that have been and will continue to be for the foreseeable future a significant component in the Company's results of operations. These non-GAAP financial measures presented here may not be comparable to similarly titled measures presented by other companies. Other companies may calculate similarly titled measures differently, limiting their usefulness as comparative measures to the Company's data.

Non-GAAP operating income represents operating income excluding share-based compensation expenses and amortization and impairment of intangible assets resulting from business combinations.

Non-GAAP net income attributable to Baidu represents net income attributable to Baidu excluding share-based compensation expenses, amortization and impairment of intangible assets resulting from business combinations, disposal gain or loss, impairment of long-term investments, fair value change of long-term investments, adjusted for related income tax effects. Baidu's share of equity method investments for these non-GAAP reconciling items, amortization and impairment of intangible assets not on the investees' books, accretion of their redeemable non-controlling interests, and the gain or loss associated with the issuance of shares by the investees at a price higher or lower than the carrying value per shares, adjusted for related income tax effects, are also excluded.

Non-GAAP diluted earnings per ADS represents diluted earnings per ADS calculated by dividing non-GAAP net income attributable to Baidu, which is adjusted for accretion for the redeemable non-controlling interests, by the weighted average number of ordinary shares expressed in ADS. Adjusted EBITDA represents operating income excluding depreciation, amortization and impairment of intangible assets resulting from business combinations, and share-based compensation expenses.

Free cash flow represents net cash provided by operating activities less capital expenditures. Starting from January 1, 2020, Baidu adopted ASU 2019-02, *Improvements to Accounting for Costs of Films and License Agreements for Program Materials*, which reclassifies cash outflows for costs incurred to acquire licensed contents from investing activities to operating activities. To increase comparability, 2019 free cash flow has been retrospectively adjusted to include cash outflows of acquisition of licensed copyrights, which is presented on the same basis as 2020 and going forward.

For more information on non-GAAP financial measures, please see the tables captioned "Reconciliations of non-GAAP financial measures to the nearest comparable GAAP measures."

| Baidu, Inc. | | | | | | | |
|---|---------------------------|---------------------------|--------------------------|---------------------------|--------------------------|--------------------------|---------------------------|
| Condensed Consolidated Statements of Income (Loss) | | | | | | | |
| (In millions except for share, per share (or ADS) information, unaudited) | | | | | | | |
| | Three Months Ended | | | | Six Months Ended | | |
| | June 30, 2019 | March 31, 2020 | June 30, 2020 | June 30, 2020 | June 30, 2019 | June 30, 2020 | June 30, 2020 |
| | RMB | RMB | RMB | US\$⁽²⁾ | RMB | RMB | US\$⁽²⁾ |
| Revenues: | | | | | | | |
| Online marketing services | 19,237 | 14,243 | 17,688 | 2,504 | 36,894 | 31,931 | 4,520 |
| Others | 7,089 | 8,302 | 8,346 | 1,181 | 13,555 | 16,648 | 2,355 |
| Total revenues | 26,326 | 22,545 | 26,034 | 3,685 | 50,449 | 48,579 | 6,875 |
| Costs and expenses: | | | | | | | |
| Cost of revenues ⁽¹⁾ | 16,116 | 14,687 | 13,134 | 1,859 | 30,955 | 27,821 | 3,938 |
| Selling, general and administrative ⁽¹⁾ | 5,243 | 3,852 | 4,417 | 625 | 11,297 | 8,269 | 1,170 |
| Research and development ⁽¹⁾ | 4,734 | 4,443 | 4,839 | 685 | 8,900 | 9,282 | 1,313 |
| Total costs and expenses | 26,093 | 22,982 | 22,390 | 3,169 | 51,152 | 45,372 | 6,421 |
| Operating income (loss) | 233 | (437) | 3,644 | 516 | (703) | 3,207 | 454 |
| Other income (loss): | | | | | | | |
| Interest income | 1,205 | 1,441 | 1,312 | 186 | 2,277 | 2,753 | 390 |
| Interest expense | (805) | (751) | (820) | (116) | (1,498) | (1,571) | (222) |
| Foreign exchange income (loss), net | 216 | (98) | 55 | 8 | (97) | (43) | (6) |
| Gain (loss) from equity method investments | 429 | 181 | (1,732) | (245) | (431) | (1,551) | (220) |
| Other income (loss), net | 193 | (1,816) | 1,551 | 220 | 1,887 | (265) | (37) |
| Total other income (loss), net | 1,238 | (1,043) | 366 | 53 | 2,138 | (677) | (95) |
| Income (loss) before income taxes | 1,471 | (1,480) | 4,010 | 569 | 1,435 | 2,530 | 359 |
| Income tax expense | 416 | 198 | 1,222 | 174 | 710 | 1,420 | 201 |
| Net income (loss) | 1,055 | (1,678) | 2,788 | 395 | 725 | 1,110 | 158 |
| Net loss attributable to noncontrolling interests | (1,357) | (1,719) | (791) | (112) | (1,360) | (2,510) | (355) |
| Net income attributable to Baidu | 2,412 | 41 | 3,579 | 507 | 2,085 | 3,620 | 513 |
| Earnings per ADS (1 Class A ordinary share equals 10 ADSs): | | | | | | | |
| -Basic | 6.84 | 0.05 | 10.34 | 1.46 | 5.86 | 10.37 | 1.47 |
| -Diluted | 6.57 | 0.02 | 10.31 | 1.46 | 5.72 | 10.32 | 1.46 |
| Earnings per share for Class A and Class B ordinary shares: | | | | | | | |
| -Basic | 68.38 | 0.52 | 103.44 | 14.64 | 58.60 | 103.66 | 14.67 |
| -Diluted | 65.69 | 0.23 | 103.06 | 14.59 | 57.22 | 103.20 | 14.61 |
| Weighted average number of Class A and Class B ordinary shares outstanding: | | | | | | | |
| Basic | 34,996,791 | 34,577,763 | 34,377,658 | 34,377,658 | 34,981,800 | 34,477,710 | 34,477,710 |
| Diluted | 35,044,719 | 34,757,943 | 34,505,617 | 34,505,617 | 35,055,695 | 34,631,780 | 34,631,780 |
| (1) Includes share-based compensation expenses as follows: | | | | | | | |
| Cost of revenues | 99 | 81 | 108 | 15 | 165 | 189 | 27 |
| Selling, general and administrative | 503 | 464 | 550 | 78 | 1,019 | 1,014 | 144 |
| Research and development | 1,022 | 945 | 1,188 | 168 | 1,648 | 2,133 | 302 |
| Total share-based compensation expenses | 1,624 | 1,490 | 1,846 | 261 | 2,832 | 3,336 | 473 |

(2) All translations from RMB to U.S. dollars are made at a rate of RMB 7.0651 to US\$1.00, the exchange rate in effect as of June 30, 2020 as set forth in the H.10 statistical release of The Board of Governors of the Federal Reserve System.

Baidu, Inc.
Condensed Consolidated Balance Sheets
(In millions except for share information, unaudited)

| | December 31, 2019 | June 30, 2020 | June 30, 2020 |
|---|----------------------|------------------|------------------|
| | RMB | RMB | US\$ |
| ASSETS | | | |
| Current assets: | | | |
| Cash and cash equivalents | 33,443 | 20,349 | 2,880 |
| Restricted cash | 996 | 1,528 | 216 |
| Short-term investments | 112,924 | 132,174 | 18,708 |
| Accounts receivable, net | 7,416 | 6,706 | 949 |
| Amounts due from related parties | 1,594 | 1,637 | 232 |
| Other current assets, net | 9,189 | 9,654 | 1,366 |
| Total current assets | 165,562 | 172,048 | 24,351 |
| Non-current assets: | | | |
| Fixed assets, net | 18,311 | 16,894 | 2,391 |
| Licensed copyrights, net | 6,287 | 5,743 | 813 |
| Intangible assets, net | 1,600 | 1,633 | 231 |
| Goodwill | 18,250 | 18,767 | 2,656 |
| Long-term investments, net | 69,410 | 68,625 | 9,713 |
| Amounts due from related parties | 3,564 | 3,585 | 507 |
| Deferred tax assets, net | 2,193 | 1,399 | 198 |
| Operating lease right-of-use assets | 7,332 | 7,352 | 1,041 |
| Other non-current assets | 8,807 | 8,422 | 1,193 |
| Total non-current assets | 135,754 | 132,420 | 18,743 |
| Total assets | 301,316 | 304,468 | 43,094 |
| LIABILITIES AND EQUITY | | | |
| Current liabilities: | | | |
| Short-term loans | 2,618 | 3,619 | 512 |
| Accounts payable and accrued liabilities | 32,701 | 31,986 | 4,527 |
| Customer deposits and deferred revenue | 11,062 | 11,601 | 1,642 |
| Deferred income | 529 | 507 | 72 |
| Long-term loans, current portion | 737 | 7,506 | 1,062 |
| Notes payable, current portion | 5,219 | - | - |
| Amounts due to related parties | 2,231 | 2,850 | 403 |
| Operating lease liabilities | 2,283 | 2,379 | 337 |
| Total current liabilities | 57,380 | 60,448 | 8,555 |
| Non-current liabilities: | | | |
| Deferred income | 17 | 44 | 6 |
| Deferred revenue | 1,009 | 756 | 107 |
| Amounts due to related parties | 3,846 | 3,853 | 545 |
| Long-term loans | 7,804 | 887 | 126 |
| Notes payable | 38,090 | 45,681 | 6,466 |
| Convertible senior notes | 12,297 | 12,694 | 1,797 |
| Deferred tax liabilities | 3,273 | 3,511 | 497 |
| Operating lease liabilities | 4,486 | 4,404 | 623 |
| Other non-current liabilities | 299 | 394 | 57 |
| Total non-current liabilities | 71,121 | 72,224 | 10,224 |
| Total liabilities | 128,501 | 132,672 | 18,779 |
| Redeemable noncontrolling interests | 1,109 | 1,173 | 166 |
| Equity | | | |
| Total Baidu shareholders' equity | 163,599 | 164,509 | 23,284 |
| Noncontrolling interests | 8,107 | 6,114 | 865 |
| Total equity | 171,706 | 170,623 | 24,149 |
| Total liabilities, redeemable noncontrolling interests, and equity | 301,316 | 304,468 | 43,094 |

Baidu, Inc.

Selected Information

(In millions except for per ADS information, unaudited)

| | Three months ended June 30, 2019 (RMB) | | | | Three months ended March 31, 2020 (RMB) | | | | Three months ended June 30, 2020 (RMB) | | | | Three months ended June 30, 2020 (US\$) | | | |
|---|---|----------------|------------------------------|----------------|--|----------------|------------------------------|----------------|---|----------------|------------------------------|----------------|--|--------------|------------------------------|----------------|
| | Baidu Core | iQIYI | Elim & adj ⁽²⁾ | Baidu, Inc. | Baidu Core | iQIYI | Elim & adj ⁽²⁾ | Baidu, Inc. | Baidu Core | iQIYI | Elim & adj ⁽²⁾ | Baidu, Inc. | Baidu Core | iQIYI | Elim & adj ⁽²⁾ | Baidu, Inc. |
| Total revenues | 19,540 | 7,110 | (324) | 26,326 | 15,268 | 7,650 | (373) | 22,545 | 18,926 | 7,412 | (304) | 26,034 | 2,679 | 1,049 | (43) | 3,685 |
| YOY | | | | | | | | | (3%) | 4% | | (1%) | | | | |
| QOQ | | | | | | | | | 24% | (3%) | | 15% | | | | |
| Costs and expenses: | | | | | | | | | | | | | | | | |
| Cost of revenues ⁽¹⁾ | 9,453 | 6,981 | (318) | 16,116 | 7,088 | 7,903 | (304) | 14,687 | 6,555 | 6,834 | (255) | 13,134 | 928 | 967 | (36) | 1,859 |
| Selling, general and administrative ⁽¹⁾ | 3,898 | 1,346 | (1) | 5,243 | 2,560 | 1,311 | (19) | 3,852 | 3,230 | 1,196 | (9) | 4,417 | 457 | 169 | (1) | 625 |
| Research and development ⁽¹⁾ | 4,080 | 655 | (1) | 4,734 | 3,772 | 678 | (7) | 4,443 | 4,175 | 664 | - | 4,839 | 591 | 94 | - | 685 |
| Total costs and expenses | 17,431 | 8,982 | (320) | 26,093 | 13,420 | 9,892 | (330) | 22,982 | 13,960 | 8,694 | (264) | 22,390 | 1,976 | 1,230 | (37) | 3,169 |
| YOY | | | | | | | | | | | | | | | | |
| Cost of revenues | | | | | | | | | (31%) | (2%) | | (19%) | | | | |
| Selling, general and administrative | | | | | | | | | (17%) | (11%) | | (16%) | | | | |
| Research and development | | | | | | | | | 2% | 1% | | 2% | | | | |
| Cost and expenses | | | | | | | | | (20%) | (3%) | | (14%) | | | | |
| Operating income (loss) | 2,109 | (1,872) | (4) | 233 | 1,848 | (2,242) | (43) | (437) | 4,966 | (1,282) | (40) | 3,644 | 703 | (181) | (6) | 516 |
| YOY | | | | | | | | | 135% | (32%) | | 1464% | | | | |
| QOQ | | | | | | | | | 169% | (43%) | | - | | | | |
| Operating margin | 11% | (26%) | | 1% | 12% | (29%) | | (2%) | 26% | (17%) | | 14% | | | | |
| Add: total other income (loss),net | 1,664 | (426) | - | 1,238 | (414) | (629) | - | (1,043) | 507 | (141) | - | 366 | 73 | (20) | - | 53 |
| Less: income tax expense | 410 | 6 | | 416 | 193 | 5 | | 198 | 1,206 | 16 | | 1,222 | 172 | 2 | | 174 |
| Less: net income (loss) attributable to NCI | (368) | 23 | (1,012) ⁽³⁾ | (1,357) | (457) | (1) | (1,261) ⁽³⁾ | (1,719) | (157) | 3 | (637) ⁽³⁾ | (791) | (22) | - | (90) ⁽³⁾ | (112) |
| Net income(loss) attributable to Baidu | 3,731 | (2,327) | 1,008 | 2,412 | 1,698 | (2,875) | 1,218 | 41 | 4,424 | (1,442) | 597 | 3,579 | 626 | (203) | 84 | 507 |
| YOY | | | | | | | | | 19% | (38%) | | 48% | | | | |
| QOQ | | | | | | | | | 161% | (50%) | | 8629% | | | | |
| Net margin | 19% | (33%) | | 9% | 11% | (38%) | | 0% | 23% | (19%) | | 14% | | | | |
| <i>Non-GAAP financial measures:</i> | | | | | | | | | | | | | | | | |
| Operating income (loss) (non-GAAP) | 3,485 | (1,526) | | 1,955 | 3,348 | (1,868) | | 1,437 | 6,482 | (837) | | 5,605 | 917 | (118) | | 793 |
| YOY | | | | | | | | | 86% | (45%) | | 187% | | | | |
| QOQ | | | | | | | | | 94% | (55%) | | 290% | | | | |
| Operating margin (non-GAAP) | 18% | (21%) | | 7% | 22% | (24%) | | 6% | 34% | (11%) | | 22% | | | | |
| Net income (loss) attributable to Baidu (non-GAAP) | 4,740 | (1,962) | | 3,635 | 4,519 | (2,482) | | 3,082 | 5,656 | (956) | | 5,082 | 801 | (135) | | 719 |
| YOY | | | | | | | | | 19% | (51%) | | 40% | | | | |
| QOQ | | | | | | | | | 25% | (61%) | | 65% | | | | |
| Net margin (non-GAAP) | 24% | (28%) | | 14% | 30% | (32%) | | 14% | 30% | (13%) | | 20% | | | | |
| Adjusted EBITDA | 4,766 | (1,407) | | 3,355 | 4,641 | (1,746) | | 2,852 | 7,771 | (716) | | 7,015 | 1,100 | (101) | | 993 |
| YOY | | | | | | | | | 63% | (49%) | | 109% | | | | |
| QOQ | | | | | | | | | 67% | (59%) | | 146% | | | | |
| Adjusted EBITDA margin | 24% | (20%) | | 13% | 30% | (23%) | | 13% | 41% | (10%) | | 27% | | | | |

(1) Includes share-based compensation as follows:

| | | | | | | | | | | | | | | | | |
|-------------------------------------|-------|-----|--|-------|-------|-----|--|-------|-------|-----|--|-------|-----|----|--|-----|
| Cost of revenues | 58 | 41 | | 99 | 34 | 47 | | 81 | 49 | 59 | | 108 | 7 | 8 | | 15 |
| Selling, general and administrative | 327 | 176 | | 503 | 273 | 191 | | 464 | 331 | 219 | | 550 | 47 | 31 | | 78 |
| Research and development | 959 | 63 | | 1,022 | 877 | 68 | | 945 | 1,102 | 86 | | 1,188 | 156 | 12 | | 168 |
| Total share-based compensation | 1,344 | 280 | | 1,624 | 1,184 | 306 | | 1,490 | 1,482 | 364 | | 1,846 | 210 | 51 | | 261 |

(2) Relates to intersegment eliminations and adjustments

(3) Relates to the net loss attributable to iQIYI noncontrolling interests

Baidu, Inc.
Condensed Consolidated Statements of Cash Flows
(In millions, unaudited)

| | Three months ended June 30, 2019 (RMB) | | | Three months ended March 31, 2020 (RMB) | | | Three months ended June 30, 2020 (RMB) | | | Three months ended June 30, 2020 (US\$) | | |
|---|---|----------------|-----------------|--|----------------|-----------------|---|----------------|----------------|--|--------------|----------------|
| | Baidu excl. iQIYI | iQIYI | Baidu, Inc. | Baidu excl. iQIYI | iQIYI | Baidu, Inc. | Baidu excl. iQIYI | iQIYI | Baidu, Inc. | Baidu excl. iQIYI | iQIYI | Baidu, Inc. |
| Net cash provided by (used in) operating activities | 6,074 | 891 | 6,965 | 2,801 | (604) | 2,197 | 9,547 | (1,358) | 8,189 | 1,351 | (192) | 1,159 |
| Net cash provided by (used in) investing activities | (2,713) | (7,836) | (10,549) | (11,084) | (1,610) | (12,694) | (8,854) | 1,144 | (7,710) | (1,254) | 162 | (1,092) |
| Net cash provided by (used in) financing activities | (8,822) | 373 | (8,449) | (1,296) | (79) | (1,375) | (2,211) | 823 | (1,388) | (312) | 116 | (196) |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 235 | 170 | 405 | 139 | 64 | 203 | 26 | (10) | 16 | 3 | (1) | 2 |
| Net increase (decrease) in cash, cash equivalents and restricted cash | (5,226) | (6,402) | (11,628) | (9,440) | (2,229) | (11,669) | (1,492) | 599 | (893) | (212) | 85 | (127) |
| Cash, cash equivalents and restricted cash | | | | | | | | | | | | |
| At beginning of period | 20,541 | 14,026 | 34,567 | 27,529 | 6,910 | 34,439 | 18,089 | 4,681 | 22,770 | 2,560 | 663 | 3,223 |
| At end of period | 15,315 | 7,624 | 22,939 | 18,089 | 4,681 | 22,770 | 16,597 | 5,280 | 21,877 | 2,348 | 748 | 3,096 |
| Net cash provided by (used in) operating activities | 6,074 | 891 | 6,965 | 2,801 | (604) | 2,197 | 9,547 | (1,358) | 8,189 | 1,351 | (192) | 1,159 |
| Less: Capital expenditures | (1,204) | (155) | (1,359) | (478) | (67) | (545) | (797) | (57) | (854) | (113) | (8) | (121) |
| Less: Acquisition of licensed copyrights ⁽¹⁾ | (41) | (2,906) | (2,947) | - | - | - | - | - | - | - | - | - |
| Free cash flow | 4,829 | (2,170) | 2,659 | 2,323 | (671) | 1,652 | 8,750 | (1,415) | 7,335 | 1,238 | (200) | 1,038 |

Note: Baidu excl. iQIYI represents Baidu, Inc. minus iQIYI's consolidated cash flows.

(1) Starting from January 1, 2020, Baidu adopted ASU 2019-02, *Improvements to Accounting for Costs of Films and License Agreements for Program Materials*, which reclassifies cash outflows for costs incurred to acquire licensed contents from investing activities to operating activities. To increase comparability, 2019 non-GAAP measure of free cash flow has been retrospectively adjusted to include cash outflows of acquisition of licensed copyrights, which is presented on the same basis as 2020 and going forward.

| | | | | | | | | | | | | |
|--|--------------|----------------|--------------|--------------|--------------|--------------|--------------|----------------|---------------|--------------|--------------|--------------|
| Free cash flow, previously reported | 4,870 | 736 | 5,606 | 2,323 | 2,056 | 4,379 | 8,750 | 1,290 | 10,040 | 1,238 | 183 | 1,421 |
| Less: Acquisition of licensed copyrights | (41) | (2,906) | (2,947) | - | (2,727) | (2,727) | - | (2,705) | (2,705) | - | (383) | (383) |
| Free cash flow, revised | 4,829 | (2,170) | 2,659 | 2,323 | (671) | 1,652 | 8,750 | (1,415) | 7,335 | 1,238 | (200) | 1,038 |

Baidu, Inc.

Reconciliations of Non-GAAP Financial Measures to the Nearest Comparable GAAP Measures

(In millions except for ADS and per ADS information, unaudited)

| | Three months ended June 30, 2019 (RMB) | | | Three months ended March 31, 2020 (RMB) | | | Three months ended June 30, 2020 (RMB) | | | Three months ended June 30, 2020 (US\$) | | |
|---|---|----------------|----------------|--|----------------|----------------|---|----------------|----------------|--|--------------|----------------|
| | Baidu Core | iQIYI | Baidu, Inc. | Baidu Core | iQIYI | Baidu, Inc. | Baidu Core | iQIYI | Baidu, Inc. | Baidu Core | iQIYI | Baidu, Inc. |
| Operating income (loss) | 2,109 | (1,872) | 233 | 1,848 | (2,242) | (437) | 4,966 | (1,282) | 3,644 | 703 | (181) | 516 |
| Add: Share-based compensation expenses | 1,344 | 280 | 1,624 | 1,184 | 306 | 1,490 | 1,482 | 364 | 1,846 | 210 | 51 | 261 |
| Add: Amortization and impairment of intangible assets ⁽¹⁾ | 32 | 66 | 98 | 316 | 68 | 384 | 34 | 81 | 115 | 4 | 12 | 16 |
| Operating income (loss) (non-GAAP) | 3,485 | (1,526) | 1,955 | 3,348 | (1,868) | 1,437 | 6,482 | (837) | 5,605 | 917 | (118) | 793 |
| Add: Depreciation of fixed assets | 1,281 | 119 | 1,400 | 1,293 | 122 | 1,415 | 1,289 | 121 | 1,410 | 183 | 17 | 200 |
| Adjusted EBITDA | 4,766 | (1,407) | 3,355 | 4,641 | (1,746) | 2,852 | 7,771 | (716) | 7,015 | 1,100 | (101) | 993 |
| Net income (loss) attributable to Baidu | 3,731 | (2,327) | 2,412 | 1,698 | (2,875) | 41 | 4,424 | (1,442) | 3,579 | 626 | (203) | 507 |
| Add: Share-based compensation expenses | 1,337 | 280 | 1,495 | 1,177 | 306 | 1,348 | 1,473 | 364 | 1,676 | 208 | 51 | 237 |
| Add: Amortization and impairment of intangible assets ⁽¹⁾⁽³⁾ | 8 | 52 | 37 | 143 | 54 | 173 | 19 | 65 | 55 | 4 | 9 | 8 |
| Add: Disposal loss (gain) ⁽³⁾⁽⁴⁾ | (181) | - | (181) | (252) | - | (252) | 453 | - | 453 | 64 | - | 64 |
| Add: Impairment of long-term investments ⁽³⁾ | 162 | 23 | 185 | 1,528 | 24 | 1,542 | 752 | 48 | 779 | 107 | 7 | 110 |
| Add: Fair value loss (gain) of long-term investments ⁽³⁾ | (285) | (1) | (286) | (176) | - | (176) | (2,535) | - | (2,535) | (359) | - | (359) |
| Add: Reconciling items on equity method investments ⁽²⁾ | (32) | 11 | (27) | 401 | 9 | 406 | 1,070 | 9 | 1,075 | 151 | 1 | 152 |
| Net income (loss) attributable to Baidu (non-GAAP) | 4,740 | (1,962) | 3,635 | 4,519 | (2,482) | 3,082 | 5,656 | (956) | 5,082 | 801 | (135) | 719 |
| Diluted earnings per ADS | | | 6.57 | | | 0.02 | | | 10.31 | | | 1.46 |
| Add: Accretion of the redeemable noncontrolling interests | | | 0.05 | | | 0.07 | | | 0.07 | | | 0.01 |
| Add: Non-GAAP adjustments to earnings per ADS | | | 3.49 | | | 8.75 | | | 4.35 | | | 0.61 |
| Diluted earnings per ADS (non-GAAP) | | | 10.11 | | | 8.84 | | | 14.73 | | | 2.08 |

(1) This represents amortization and impairment of intangible assets resulting from business combinations.

(2) This represents Baidu's share of equity method investments for other non-GAAP reconciling items, amortization and impairment of intangible assets not on the investee's books, accretion of their redeemable noncontrolling interests, and the gain or loss associated with the issuance of shares by the investees at a price higher or lower than the carrying value per shares, adjusted for related income tax effects.

(3) Net of related tax impact

(4) Includes re-measurement gain or loss of previous held equity interest in the acquisition