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 Accountant's Report in Appendix I and in "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 pioneer and a leading company in the premium smart electric vehicle market. We design, develop, jointly manufacture and sell premium smart electric vehicles, driving innovations in autonomous driving, digital technologies, and electric powertrains and batteries. We differentiate ourselves through our continuous technological breakthroughs and innovations, such as our industry-leading battery swapping technologies, BaaS, as well as our proprietary autonomous driving technologies and ADaaS.

We introduced the EP9 supercar in 2016, which was then the fastest electric vehicle, setting the Nurburgring Nordschleife all-electric vehicle lap record. In December 2017, we launched the ES8, which is a six- or seven-seater flagship premium smart electric SUV. Subsequently, we launched the award-winning ES6, a five-seater high-performance premium smart electric SUV, in December 2018, and the EC6, a five-seater premium smart electric coupe SUV, in December 2019, followed by the ET7, a flagship premium smart electric sedan, in January 2021. In December 2021, we launched the ET5, a mid-size premium smart electric sedan.

In 2018, we delivered 11,348 ES8s. In 2019, we delivered 20,565 vehicles, including 9,132 ES8s and 11,433 ES6s. In 2020, we delivered 43,728 vehicles, including 10,861 ES8s, 27,945 ES6s and 4,922 EC6s. In the nine months ended September 30, 2021, we delivered 66,395 vehicles, including 14,367 ES8s, 29,294 ES6s and 22,734 EC6s. As of September 30, 2021, we had delivered a total of 142,036 vehicles. The table below sets forth delivery data relating to our vehicles for the periods indicated.

	2020 Q1	2020 Q2	2020 Q3	2020 Q4	2020 Full Year	2021 Q1	2021 Q2	2021 Q3
ES8s	195	2,263	3,530	4,873	10,861	4,516	4,433	5,418
ES6s	3,643	8,068	8,660	7,574	27,945	8,088	9,935	11,271
EC6s	–	–	16	4,906	4,922	7,456	7,528	7,750
Total	**3,838**	**10,331**	**12,206**	**17,353**	**43,728**	**20,060**	**21,896**	**24,439**

We recorded revenues of RMB4,951.2 million, RMB7,824.9 million and RMB16,257.9 million for the years ended December 31, 2018, 2019 and 2020, respectively, and revenues of RMB9,616.8 million and RMB26,235.7 million (US$4,071.7 million) for the nine months ended September 30, 2020 and 2021, respectively, which mainly consisted of revenues from the sales of our vehicles, revenue from a number of embedded products and services offered together with the sale of vehicles, revenues from our services including power solutions such as our energy package, one-off usage of our One Click for Power services and Power Swap services, as well as revenues from monthly fees, excluding those fees for statutory and third-party liability insurance and vehicle damage insurance paid directly to third-party insurers, under our service package. We incurred net losses of RMB9,639.0 million, RMB11,295.7 million and RMB5,304.1 million in 2018, 2019 and 2020, respectively; and net losses of RMB3,915.5 million and RMB1,873.5 million (US$290.8 million) in the nine months ended 2020 and 2021, respectively. We had negative cash flows from operating activities of RMB7,911.8 million and RMB8,721.7 million in 2018 and 2019, respectively. We had net current liabilities of RMB4,570.9 million in 2019. We had historically incurred net losses, negative cash flows from operating activities and net current liabilities, primarily because we made significant up-front investments in research and development, service network and sales and marketing to rapidly develop and expand our business at an earlier stage of our development in order to achieve long-term competitiveness. We believe it is common for start-up businesses in the NEV industry to invest significantly, record negative financial performance at an early stage and take time to introduce products and ramp up sales volume.

Since the second quarter of 2020, we had started to generate positive cash flow from operations and record net current assets. This is primarily due to the consummation of equity and debt financing, and the continuously increased number of vehicles we delivered over time, including the ES6s since June 2019, the all-new ES8s since April 2020 and the EC6s since September 2020. Except the first quarter of 2020 when our sales, manufacturing and delivery capabilities were severely affected by the COVID-19 pandemic in China, the number of vehicles we delivered showed consecutive increases for each quarter since the second quarter of 2019. The improvement in our financial performance was also attributable to the increased sales volume that led to economics of scale, driven by the enhanced recognition of our brand and products from users and our online and offline sales network expansion. In addition, we believe our continuous cost control efforts were effective in improving operating efficiency and reducing our cost and expenses as a proportion of total revenue. Moreover, the multiple financings we conducted and the strategic investments we received in 2019, 2020 and the first nine months of 2021 strengthened our balance sheet as well as our cash position.

KEY LINE ITEMS AFFECTING OUR RESULTS OF OPERATIONS

Revenues

The following table presents our revenue components by amount and as a percentage of the total revenues for the periods indicated.

	Year Ended December 31,						Nine Months Ended September 30,				
	2018		2019		2020		2020		2021		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US$	%
	(in thousands)										
							(unaudited)				
Revenues:											
Vehicle sales	4,852,470	98.0	7,367,113	94.1	15,182,522	93.4	9,008,474	93.7	23,954,365	3,717,659	91.3
Other sales[(1)]	98,701	2.0	457,791	5.9	1,075,411	6.6	608,368	6.3	2,281,316	354,055	8.7
Total revenues	**4,951,171**	**100.0**	**7,824,904**	**100.0**	**16,257,933**	**100.0**	**9,616,842**	**100.0**	**26,235,681**	**4,071,714**	**100.0**

Note:

(1) Other sales are comprised as below:

	Year Ended December 31,						Nine Months Ended September 30,				
	2018		2019		2020		2020		2021		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US$	%
	(in thousands)						(unaudited)				
Other sales											
Sales of automotive regulatory credits	–	–	–	–	120,648	0.8	–	–	516,549	80,167	2.0
Sales of packages	10,220	0.2	111,448	1.4	244,072	1.5	162,975	1.7	368,433	57,180	1.4
Battery upgrade service	–	–	–	–	5,346	0.0	–	–	270,828	42,032	1.0
Sales of charging piles	82,184	1.7	127,632	1.6	229,781	1.4	133,135	1.4	243,740	37,828	0.9
Others	6,297	0.1	218,711	2.9	475,564	2.9	312,258	3.2	881,766	136,848	3.4
Total	**98,701**	**2.0**	**457,791**	**5.9**	**1,075,411**	**6.6**	**608,368**	**6.3**	**2,281,316**	**354,055**	**8.7**

We began generating revenues in June 2018, when we began making deliveries and sales of the ES8. We currently generate revenues from (i) vehicle sales, which represent revenues from sales of the ES8, the ES6 and the EC6, (ii) sales of automotive regulatory credits, (iii) battery upgrade service, which represents the battery upgrade program for providing incremental battery capacity to the users; (iv) sales of charging piles, including home chargers provided as one of the performance obligations in the contract of vehicle sales, and additional charging piles sold separately, (v) sales of packages, including the sales of our service package and energy package (including charging and battery swapping services), and (vi) other sales, which mainly consist of revenues from sales of accessories, embedded products and services offered together with vehicle sales, and others. Embedded products and services include vehicle connectivity service and extended warranty.

Revenue from sales of the ES8, the ES6 and the EC6, charging piles, battery upgrade service, automotive regulatory credits and sales of accessories are recognized when controls are transferred. For vehicle connectivity services and battery swapping service, we recognize revenue using a straight-line method. As for the extended warranty, given our limited operating history and lack of historical data, we recognize revenue over time based on a straight-line method initially, and will continue monitoring the cost pattern periodically and adjust the revenue recognition pattern to reflect the actual cost pattern as it becomes available with more data. Revenues for our energy package or service package are recognized over time on a monthly basis as our users simultaneously receive and consume the benefits of the related package and the legally enforceable term is only one month.

In January 2021, we launched the ET7, a flagship premium smart electric sedan. In December 2021, we launched the ET5, a mid-size premium smart electric sedan. Users can pre-order the ET7 and the ET5 through the NIO app and we expect to generate revenues from sales of the ET7 and the ET5 as soon as we begin making deliveries, which are expected to occur in March and September 2022, respectively.

Cost of Sales

The following table presents our cost of sales components by amount and as a percentage of our total cost of sales for the period indicated.

	Year Ended December 31,						Nine Months Ended September 30,				
	2018		2019		2020		2020		2021		
	RMB	%	RMB	%	RMB	%	RMB	%	RMB	US$	%
	(in thousands)						(unaudited)				
Cost of Sales:											
Vehicle sales	(4,930,135)	94.7	(8,096,035)	89.7	(13,255,770)	92.2	(8,146,439)	91.7	(19,225,123)	(2,983,692)	91.1
Other sales	(276,912)	5.3	(927,691)	10.3	(1,128,744)	7.8	(738,929)	8.3	(1,888,669)	(293,117)	8.9
Total cost of sales	**(5,207,047)**	**100.0**	**(9,023,726)**	**100.0**	**(14,384,514)**	**100.0**	**(8,885,368)**	**100.0**	**(21,113,792)**	**(3,276,809)**	**100.0**

We incur cost of sales in relation to (i) vehicle sales, including, among others, purchases of raw materials, processing fee, warranty expenses and manufacturing overhead (including depreciation), and (ii) other sales, including parts and materials, labor costs, vehicle connectivity cost, and depreciation of assets that are associated with sales of service and energy packages. Cost of sales with respect to vehicle sales also includes compensation to JAC.

Gross (Loss)/Profit and Gross Margin

The following table presents our gross (loss)/profit and gross margin by components for the periods indicated.

	Year Ended December 31,			Nine Months Ended September 30,		
	2018	2019	2020	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands)			(unaudited)		
Gross (Loss)/Profit						
Vehicle sales	(77,665)	(728,922)	1,926,752	862,035	4,729,242	733,967
Other sales	(178,211)	(469,900)	(53,333)	(130,561)	392,647	60,938
Total	**(255,876)**	**(1,198,822)**	**1,873,419**	**731,474**	**5,121,889**	**794,905**

	Year Ended December 31,			Nine Months Ended September 30,	
	2018	2019	2020	2020	2021
				(unaudited)	
Gross Margin					
Vehicle sales	-1.6%	-9.9%	12.7%	9.6%	19.7%
Other sales	-180.6%	-102.6%	-5.0%	-21.5%	17.2%
Total	**-5.2%**	**-15.3%**	**11.5%**	**7.6%**	**19.5%**

The increase of gross loss and decrease of gross margin from 2018 to 2019 was mainly due to the negative impact of battery recall costs incurred in 2019.

The increase of gross profit from 2019 to 2020 was mainly driven by the increase of vehicle delivery volume and vehicle margin. The increase of gross margin from 2019 to 2020 was mainly driven by the increase of vehicle margin in 2020, which in turn was due to the lower per unit material cost and fixed cost achieved through economies of scale as a result of vehicle delivery and production volume increase.

The increase of gross profit in the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020 was mainly driven by the increase of vehicle delivery volume and vehicle margin. The increase of gross margin in the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020 was mainly driven by the increase of vehicle margin in the nine months ended September 30, 2021, which was in turn mainly due to the economies of scale achieved as a result of vehicle production and delivery volume increase, and higher average selling price.

Operating Expenses

Research and Development Expenses

Research and development expenses consist primarily of (i) design and development expenses, which include, among others, consultation fees, outsourcing fees and expenses of testing materials and (ii) employee compensation, representing salaries, benefits and bonuses as well as share-based compensation expenses for our research and development staff. Our research and development expenses also include travel expenses, depreciation and amortization of equipment used in relation to our research and development activities, rental and related expenses with respect to laboratories and offices for research and development teams and others, which primarily consists of telecommunication expenses, office fees and freight charges.

Our research and development expenses are mainly driven by the number of our research and development employees, the stage and scale of our vehicle development and development of technology.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses include (i) employee compensation, including salaries, benefits and bonuses as well as share-based compensation expenses with respect to our sales, marketing and general corporate staff, (ii) marketing and promotional expenses, which primarily consist of marketing and advertising costs, sponsorship fees and racing costs related to our Formula E team, (iii) rental and related expenses, which primarily consist of rental for NIO Houses, NIO Spaces and offices, (iv) professional service expenses, which consist of outsourcing fees primarily relating to human resources and IT functions, design fees paid for NIO Houses, NIO Spaces and offices and fees paid to auditors and legal counsel, (v) depreciation and amortization expenses, primarily consisting of depreciation and amortization of leasehold improvements, IT equipment and software, among others, (vi) expenses of low value consumables, primarily consisting of, among others, IT consumables, office supplies, sample fees and IT-system related licenses, (vii) traveling expenses, and (viii) other expenses, which includes telecommunication expenses, utilities and other miscellaneous expenses.

Our selling, general and administrative expenses are significantly affected by the number of our non-research and development employees, marketing and promotion activities and the expansion of our sales and after-sales network, including NIO Houses, NIO Spaces and other leased properties.

Interest Income

Interest income primarily consists of interest earned on cash deposits and short-term investment in banks.

Interest Expense

Interest expense consists of interest expense with respect to our indebtedness.

Share of Losses of Equity Investees

Share of losses of equity investees primarily consists of our share of the losses, net of shares of gains of our affiliates in which, as of September 30, 2021, we held 9.5% to 51.0% equity interest. Our equity interest is accounted for using the equity method since we exercise significant influence but do not own a majority equity interest in or control those investees. For affiliates in which we held equity interest less than 20%, we can exercise significant influence over investees through participation and voting right in the board of directors.

Other Income/(Loss), Net

Other income or loss primarily consist of gains or losses we incur based on movements between the U.S. dollar and the Renminbi. We have historically held a significant portion of our cash and cash equivalents in U.S. dollars, while we have incurred a significant portion of our expenses in RMB. Other income also includes income from reimbursement from depository bank.

Income Tax Expense

Income tax expense primarily consists of current income tax expense, mainly attributable to intra-group income earned by our German, UK, Hong Kong and PRC subsidiaries which are eliminated upon consolidation but were subject to tax in accordance with applicable tax law.

IMPACT OF COVID-19 ON OUR OPERATIONS

The majority of our revenues are derived from sales of our vehicles in China. Our results of operations and financial condition in 2020 have been affected by the spread of COVID-19. The COVID-19 pandemic has impact on China's auto industry in general and the production and delivery of vehicles of our company.

In early 2020, in response to intensifying efforts to contain the spread of COVID-19, the Chinese government took a number of actions, which included extending the Chinese New Year holiday, quarantining individuals infected with or suspected of having contracted COVID-19, prohibiting residents from free travel, encouraging employees of enterprises to work remotely from home and canceling public activities, among others. The COVID-19 has also resulted in temporary closure of many corporate offices, retail stores, manufacturing facilities and factories across China. We have taken a series of measures in response to the pandemic, including, among others, remote working arrangements for our employees and temporary shutdown of some of our premises and facilities in early 2020. We have followed and are continuing to follow all legal directions and safety guidelines with respect to our premises and facilities in operation. These measures, if taken again in the future, could reduce the capacity and efficiency of our operations, which in turn could negatively affect our results of operations. Although COVID-19 has been largely controlled in China, there have been occasional outbreaks in several cities. To the extent we have service centers and vehicle delivery centers in these locations, we are susceptible to factors adversely affecting one or more of these locations as a result of COVID-19.

We have been working closely with JAC, the manufacturer of the ES8, ES6 and EC6, to resume productions and minimize the impact of COVID-19 on our manufacturing capabilities. As a result, our manufacturing and delivery capacities recovered to the level prior to the COVID-19 pandemic by the second quarter of 2020. In addition, we strive to expand our traffic channels, integrate our online and offline sales efforts and offer high-quality services to bring business and operation back to normal. We will pay close attention to the development of the COVID-19 pandemic, perform further assessment of its impact and take relevant measures to minimize the impact. Although our vehicle deliveries in the first quarter of 2020 was negatively impacted as a result of the COVID-19 pandemic, we achieved satisfactory delivery results in the rest of the year. The total number of vehicles we delivered in the last three quarters of 2020 was 39,890, showing an increase by 140.6% from the last three quarters of 2019. The total number of vehicles we delivered in the first three quarters of 2021 was 66,395, showing an increase of 151.7% from the first three quarters of 2020. We will continue to monitor and evaluate the financial impact on our financial condition, results of operations and cash flows for subsequent periods.

The extent to which COVID-19 impacts our financial position, results of operations and cash flows in the future will depend on the future developments of the pandemic, including the duration and severity of COVID-19, the extent and severity of new waves of outbreak in China and other countries, the development and progress of distribution of COVID-19 vaccine and other medical treatment and the effectiveness of such vaccine and other medical treatment, and the actions taken by government authorities to contain the outbreak, all of which are highly uncertain, unpredictable and beyond our control. In addition, our financial position, results of operations and cash flows could be adversely affected to the extent that the pandemic harms the Chinese economy in general. As of December 31, 2020 and September 30, 2021, we had cash and cash equivalents, restricted cash and short-term investments of RMB42,454.3 million and RMB46,957.0 million (US$7,287.6 million), respectively. We believe this level of liquidity is sufficient to successfully navigate an extended period of uncertainty.

See "Risk Factors — Risks Related to Our Business and Industry — Our business, financial condition and results of operations may be adversely affected by the COVID-19 pandemic."

TAXATION

Cayman Islands

We are incorporated in the Cayman Islands. The Cayman Islands currently have no form of income, corporate or capital gains tax and no estate duty, inheritance tax or gift tax. There are no other taxes likely to be material to us levied by the government of the Cayman Islands except for stamp duties which may be applicable on instruments executed in, or, after execution, brought within the jurisdiction of the Cayman Islands.

Hong Kong

Subsidiaries incorporated in Hong Kong are subject to 8.25% profit tax on the first HKD2 million taxable income and 16.5% profit tax on the remaining taxable income generated from operations in Hong Kong. There is no withholding tax in Hong Kong on remittance of dividends.

PRC

Generally, our PRC subsidiaries are subject to enterprise income tax on their taxable income in China at a statutory rate of 25%, except for our certain PRC subsidiaries that are qualified as high and new technology enterprises under the PRC Enterprise Income Tax Law and are eligible for a preferential enterprise income tax rate of 15%. The enterprise income tax is calculated based on the entity's global income as determined under PRC tax laws and accounting standards.

Our products and services are primarily subject to value-added tax at a rate of 13% on the vehicles and charging piles, repair and maintenance services and charging services as well as 6% on services such as research and development services, in each case less any deductible value-added tax we have already paid or born. We are also subject to surcharges on value-added tax payments in accordance with PRC law.

Dividends paid by our PRC subsidiaries in China to our Hong Kong subsidiaries will be subject to a withholding tax rate of 10%, unless the relevant Hong Kong entity satisfies all the requirements under the Double Taxation Avoidance Arrangement and receives approval from the relevant tax authority. If our Hong Kong subsidiaries satisfy all the requirements under the tax arrangement and receive approval from the relevant tax authority, then the dividends paid to the Hong Kong subsidiaries would be subject to withholding tax at the standard rate of 5%. Effective from November 1, 2015, the above-mentioned approval requirement has been abolished, but a Hong Kong entity is still required to file application package with the relevant tax authority, and settle the overdue taxes if the preferential 5% tax rate is denied based on the subsequent review of the application package by the relevant tax authority.

If NIO Inc. or any of our subsidiaries outside of China were deemed to be a "resident enterprise" under the PRC Enterprise Income Tax Law, it would be subject to enterprise income tax on its worldwide income at a rate of 25%.

Under the PRC Enterprise Income Tax Law, research and development expenses incurred by an enterprise in the course of carrying out research and development activities that have not formed intangible assets and are included in the profit and loss account for the current year. Besides deducting the actual amount of research and development expenses incurred, an enterprise is allowed an additional 75% deduction of the amount in calculating its taxable income for the relevant year. For research and development expenses that have formed intangible assets, the tax amortization is based on 175% of the costs of the intangible assets.

CRITICAL ACCOUNTING POLICIES

Our consolidated financial statements have been prepared in accordance with U.S. GAAP. Significant accounting policies followed by us in the preparation of the accompanying consolidated financial statements are summarized below:

Revenue recognition

Revenue is recognized when or as the control of the goods or services is transferred to a customer. Depending on the terms of the contract and the laws that apply to the contract, control of the goods and services may be transferred over time or at a point in time. Control of the goods and services is transferred over time if our performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as we perform; or
- does not create an asset with an alternative use to us and we have an enforceable right to payment for performance completed to date.

If control of the goods and services transfers over time, revenue is recognized over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognized at a point in time when the customer obtains control of the goods and services.

Contracts with customers may include multiple performance obligations. For such arrangements, we allocate revenue to each performance obligation based on its relative standalone selling price. We generally determine standalone selling prices based on the prices charged to customers. If the standalone selling price is not directly observable, it is estimated using expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information. Assumptions and estimations have been made in estimating the relative selling price of each distinct performance obligation, and changes in judgments on these assumptions and estimates may impact the revenue recognition.

When either party to a contract has performed, we present the contract in the consolidated balance sheet as a contract asset or a contract liability, depending on the relationship between our performance and the customer's payment.

A contract asset is our right to consideration in exchange for goods and services that we have transferred to a customer. A receivable is recorded when we have an unconditional right to consideration. A right to consideration is unconditional if only the passage of time is required before payment of that consideration is due.

If a customer pays consideration or we have a right to an amount of consideration that is unconditional, before we transfer a good or service to the customer, we present the contract liability when the payment is made or a receivable is recorded (whichever is earlier). A contract liability is our obligation to transfer goods or services to a customer for which we have received consideration (or an amount of consideration is due) from the customer. Our contract liabilities primarily resulted from the multiple performance obligations identified in the vehicle sales contract and the sales of packages, which are recorded as deferred revenue and advance from customers. As of December 31, 2018, 2019, 2020 and September 30, 2021, the balances of contract liabilities from vehicle sales contracts were RMB99.1 million, RMB491.0 million, RMB1,253.6 million and RMB1,942.4 million (US$301.5 million), respectively. As of December 31, 2018, 2019, 2020 and September 30, 2021, the balances of contract liabilities from the sales of service and energy packages were RMB32.2 million, RMB57.8 million, RMB91.5 million and RMB136.3 million (US$21.2 million), respectively. As of December 31, 2018, 2019 and 2020 and September 30, 2021, the Company did not record any contract assets.

For the years ended December 31, 2018, 2019 and 2020, and the nine months ended September 30, 2020 and 2021, revenue recognised at a point in time was RMB4,939.3 million, RMB7,696.2 million, RMB15,969.4 million, RMB9,418.9 million and RMB25,755.8 million (US$3,997.2 million), respectively, and revenue recognised over time was RMB11.9 million, RMB128.7 million, RMB288.5 million, RMB198.0 million and RMB479.9 million (US$74.5 million), respectively. Deferred revenue mainly includes the transaction price allocated to the performance obligations that are unsatisfied, or partially satisfied, were RMB181.5 million, RMB405.3 million, RMB1,006.8 million and RMB1,837.6 million (US$285.2 million) as of December 31, 2018, 2019 and 2020 and September 30, 2021, respectively.

We generate revenue from (i) vehicle sales, (ii) battery upgrade service, (iii) sales of charging piles, (iv) sales of packages, (v) automotive regulatory credits, and (vi) others.

Vehicle sales

We generate revenue from sales of electric vehicles, together with a number of embedded products and services through a series of contracts. We identify the users who purchase the vehicle as our customers. There are multiple distinct performance obligations explicitly stated in a series of contracts including sales of vehicles, home chargers, vehicle connectivity services, extended warranty and battery swapping service which are accounted for in accordance with ASC 606. The standard warranty provided by us is accounted for in accordance with ASC 460, Guarantees, and the estimated costs are recorded as a liability when we transfer the control of vehicle to a user.

Customers only pay the amount after deducting the government subsidies to which they are entitled for the purchase of electric vehicles. The government subsidies are applied and collected by us or JAC, from the government. The government subsidy is considered as a part of the transaction price we charge customers for the electric vehicle, as the subsidy is granted to the buyer of the electric vehicle instead of us and the buyer remains liable for such amount to us in the event the subsidies were not received by us. We or JAC applies and collects the payments on behalf of customers.

In the instance that some eligible customers select installment payment for battery, we believe such arrangement contains a significant financing component and as a result adjust the transaction price to reflect the impact of time value on the transaction price using an appropriate discount rate (i.e., the interest rates of the loan reflecting the credit risk of the borrower). Interest income resulting from a significant financing component is presented as other sales. Receivables related to the battery installment payment and auto financing programs that are expected to be repaid by customers beyond one year of the dates of the financial statements are recognized as non-current assets. The difference between the gross receivable and the respective present value is recorded as unrealized finance income. Interest income resulting from arrangements with a significant financing component is presented separately from revenue from contracts with customers.

The Group uses a cost plus margin approach to determine the estimated standalone selling price for each individual distinct performance obligation identified, considering the Group's pricing policies and practices, and the data utilized in making pricing decisions. The overall contract price is then allocated to each distinct performance obligation based on the relative estimated standalone selling price in accordance with ASC 606. The revenue for vehicle sales and home chargers are recognized at a point in time when the control of the product is transferred to the customer. For the vehicle connectivity service and battery swapping service, the Group recognizes the revenue over time using a straight-line method for the estimated beneficial period. As for the extended warranty, given limited operating history and lack of historical data, the Group decides to recognize the revenue over time based on a straight-line method initially, and will continue monitoring the cost pattern periodically and adjust the revenue recognition pattern to reflect the actual cost pattern as it becomes available.

As the consideration for the vehicle and all embedded services are generally paid in advance, which means the payments received are prior to the transfer of goods or services by the Group, the Group records a contract liability (deferred revenue) for the allocated amount regarding those unperformed obligations.

Battery as a Service (BaaS)

The Battery as a Service (BaaS) allows users to purchase electric vehicles without batteries and subscribe for the usage of batteries separately. In PRC, under the BaaS, we sell batteries to the Battery Asset Company, an equity investee of us, on a back-to-back basis when we sell the vehicle to the BaaS users and the BaaS users subscribe for the usage of the batteries from the Battery Asset Company by paying a monthly subscription fee to the Battery Asset Company. The promise to transfer the control of batteries to the Battery Asset Company is the only performance obligation in our contract with the Battery Asset Company for the sales of batteries. We recognize revenue for vehicle (without battery) when control of the vehicle (without battery) is transferred to the BaaS users. We recognize revenue from the sales of battery packs to the Battery Asset Company when the vehicles (together with the battery packs) are delivered to the BaaS users which is the point considered then the control of the battery packs is transferred to the Battery Asset Company.

Together with sales of the batteries, we entered into service agreements with the Battery Asset Company, pursuant to which we provide services to the Battery Asset Company, including batteries monitoring, maintenance, upgrade, replacement, IT system support and others, with monthly service charges. In case of any default in payment of monthly subscription fees from users, the Battery Asset Company has the right to request us to track and lock down the battery subscribed by users to limit its usage. In addition, we agreed to provide guarantee to the Battery Asset Company for the default in payment of monthly subscription fees from users. The maximum amount of guarantee that can be claimed by the Battery Asset Company for the users' payment default shall not be higher than the accumulated service fees we receive from the Battery Asset Company.

For services provided to the Battery Asset Company, revenue is recognized over the period when services are rendered. As for financial guarantee liabilities, the provision of guarantee is linked to and associated with services rendered to the Battery Asset Company and the payment of guarantee amount is therefore accounted for as the reduction to the revenue from the Battery Asset Company.

The fair value of the guarantee liabilities is determined by taking into consideration of the default pattern of our existing battery installment programs provided to users. At each period end, the financial liabilities are remeasured with the corresponding changes recorded as the reduction to the revenue.

As of September 30, 2021, both service revenue and guarantee liability were immaterial. In addition, as the Battery Asset Company was only established in August 2020 and the BaaS was introduced on August 20, 2020, there was a significant increase in the Battery Asset Company's contribution to our revenue from 1.3% in the year ended December 31, 2020 to 10.8% in the nine months ended September 30, 2021.

Battery swapping service

We also provide battery swapping service to both BaaS users and non-BaaS users, which provides the users with convenient "recharging" experiences by swapping the user's battery for another one. The initial users can have their batteries swapped certain times a month free of charges (i.e. monthly free-of-charge quota), as set forth in the vehicle sales contracts, or at certain charges each time after the monthly free-of-charge quota of swapping is consumed. The battery swapping service is in substance a charging service instead of non-monetary exchanges or sales of batteries as the batteries involved in such swapping are the same in capacity and very similar in performance. For performance obligation of the battery swapping service sold together with the vehicles, the Group recognizes the revenue over time using a straight-line method in the estimated beneficial period. For battery swapping out of free-of-charge quota, the Group recognizes revenue at the amount of consideration paid by users for swapping.

Practical expedients and exemptions

We follow the guidance on immaterial promises when identifying performance obligations in the vehicle sales contracts and conclude that roadside assistance and out-of-town charging services are not performance obligations considering these two services are value-added services to enhance user experience rather than critical items for vehicle driving and forecasted that usage of these two services will be very limited. We also perform an estimation on the standalone fair value of each promise applying a cost plus margin approach and conclude that the standalone fair value of roadside assistance and out-of-town charging services are insignificant individually and in aggregate, representing less than 1% of vehicle gross selling price and aggregate fair value of each individual promise.

Considering the qualitative assessment and the result of the quantitative estimate, we concluded not to assess whether promises are performance obligations if they are immaterial in the context of the contract and the relative standalone fair value individually and in aggregate is less than 3% of the contract price, namely the roadside assistance and out-of-town charging services. Related costs are recognized as incurred.

Battery upgrade service

We provide battery upgrade service to both BaaS users and non-BaaS users. The users can exchange their batteries with lower capacity for the batteries with higher capacity from us with a fixed cash consideration. The battery upgrade service is in substance the provision of incremental battery capacity to the users instead of non-monetary battery exchanges or sales of batteries. Therefore, without the BaaS model, the revenue from the battery upgrade service is recognized at the amount of cash consideration paid by users at a point in time when the service is rendered. Under the BaaS model, since the ownership of the originally installed battery belongs to the Battery Asset Company, when a user requests battery upgrade, we actually upgrade the battery that belongs to the Battery Asset Company with higher capacity and recognize revenue for the battery upgrade service at the amount paid by the Battery Asset Company when the battery upgrade service is rendered. BaaS users will further pay a higher monthly subscription fee to the Battery Asset Company for subscribing for the battery with higher capacity.

Sales of charging piles

In addition to the home chargers provided as one of the performance obligations in the contract of vehicle sales, we also sell charging piles to customers separately. Revenue for charging piles is recognized at a point in time when the control of the products is transferred to customers.

Sales of packages

We also sell our users two packages, service package and energy package, in exchange for cash considerations. The energy package includes battery charging and swapping services and service package includes repair and maintenance services.

The agreements for energy package and service package create legal enforceability to both parties on a monthly basis as the respective energy or service packages can be canceled at any time without any penalty. We conclude that each service provided in the energy or service package is a series and meets the stand-ready criteria and contains only one performance obligation within each package. Therefore, each service provided in the energy or service package is recognized under the same pattern over time on a monthly basis as customer simultaneously receives and consumes the benefits provided and the term of legally enforceable contract is only one month.

As the consideration for service and energy packages are generally paid in advance, which means the payments received are prior to the transfer of services by us, we record the consideration as a contract liability (advance from customers) upon receipt.

Sales of Automotive Regulatory Credits

New Energy Vehicle ("**NEV**") mandate policy launched by the MIIT specifies the NEV credit targets. Given that all of our vehicles are NEVs, we are able to generate NEV credits above target. The credits earned per vehicle is dependent on various metrics such as vehicle driving range and battery energy efficiency, and is calculated based on the MIIT published formula. Excess positive NEV credits are tradable to other vehicle manufacturers through a credit management system established by the MIIT on a separately negotiated basis. We sell these credits at an agreed price to other vehicle manufacturers.

Considerations for automotive regulatory credits are typically received at the point control transfers to the customer, or in accordance with payment terms customary to the business. We recognize revenue on the sale of automotive regulatory credits at the time control of the regulatory credits is transferred to the purchasing party as other revenue in the consolidated statements of operations. Revenue from the sale of automotive regulatory credits totaled nil, nil and RMB120.6 million for the years ended December 31, 2018, 2019 and 2020, respectively. Revenue from the sale of automotive regulatory credits totaled nil and RMB516.5 million for the nine months ended September 30, 2020 and 2021, respectively.

Others

Other revenues primarily comprise revenues generated from (i) sales of accessories, (ii) embedded products and services offered together with vehicle sales, including vehicle connectivity service and extended warranty, and (iii) others. Revenue is recognized when relevant services are rendered or control of the products is transferred.

Lease – Lessor

Revenues from finance leases are recognized using the effective yield method. Revenues from operating leases are recognized on a straight-line basis over the lease term.

Incentives

We offer a self-managed customer loyalty program points, which can be used in our online store and at NIO Houses to redeem NIO merchandise. We determine the value of each point based on estimated incremental cost. Customers and NIO fans and advocates have a variety of ways to obtain the points. The major accounting policy for its points program is described as follows:

(1) Sales of vehicles

We conclude the points offered linked to the purchase transactions of the vehicles are a material right and accordingly a separate performance obligation according to ASC 606, and should be taken into consideration when allocating the transaction price of the vehicle sales. We also estimate the probability of points redemption when performing the allocation. Since historical information does not yet exist for us to determine any potential points forfeitures and the fact that most merchandise can be redeemed without requiring a significant amount of points compared with the amount of points provided to users, we believe it is reasonable to assume all points will be redeemed and no forfeiture is estimated currently. The amount allocated to the points as a separate performance obligation is recorded as contract liability (deferred revenue) and revenue should be recognized when future goods or services are transferred. We will continue to monitor when and if forfeiture rate data becomes available and will apply and update the estimated forfeiture rate at each reporting period.

(2) Sales of packages

Energy package — when the customers charge their vehicles without using our charging network as tracked by our system, we will grant points to the customers based on the quantity of electricity charged. We record the value of the points as a reduction of revenue from the energy package.

Service package — we grant points to the customers when the customers accumulate miles of safe driving during the service period of the service package. We record the value of the points as a reduction of revenue from the service package.

Since historical information is limited for us to determine any potential points forfeiture and most merchandise can be redeemed without requiring a significant amount of points compared with the amount of points provided to our users, we have used an estimated forfeiture rate of zero.

(3) Other scenarios

Customers or users of our mobile application can also obtain points through any other ways, such as frequent sign-ins to our mobile application and sharing articles from the application to users' own social media. We believe these points are to encourage user engagement and generate market awareness. As a result, we account for such points as selling and marketing expenses with a corresponding liability recorded under other current liabilities of our consolidated balance sheets upon the points offering. We estimate liabilities under the customer loyalty program based on cost of our merchandise that can be redeemed, and our estimate of probability of redemption. At the time of redemption, we record a reduction of inventory and other current liabilities. In certain cases where merchandise is sold for cash in addition to points, we record other revenue.

Similar to the reasons above, we estimate no points forfeiture currently and continue to assess when and if a forfeiture rate should be applied.

For the years ended December 31, 2018, 2019 and 2020, the revenue portion allocated to the points as separate performance obligation was RMB47.3 million, RMB66.3 million and RMB162.5 million, respectively, and for the nine months ended September 30, 2020 and 2021, the revenue portion allocated to the points as separate performance obligation was RMB78.7 million and RMB241.8 million (US$37.5 million), respectively, which is recorded as contract liability (deferred revenue). For the years ended December 31, 2018, 2019 and 2020 and for the nine months ended September 30, 2020 and 2021, the total points recorded as a reduction of revenue were insignificant. For the years ended December 31, 2018, 2019 and 2020, the total points recorded as selling and marketing expenses were RMB153.1 million, RMB142.4 million and RMB78.2 million, respectively. For the nine months ended September 30, 2020 and 2021, the total points recorded as selling and marketing expenses were RMB50.1 million and RMB111.4 million (US$17.3 million), respectively.

As of December 31, 2018, 2019, 2020 and September 30, 2021, liabilities recorded related to unredeemed points were RMB143.9 million, RMB178.7 million, RMB221.5 million and RMB383.7 million (US$59.6 million), respectively.

Cost of Sales

Vehicle

Cost of vehicle revenue includes parts and materials, processing fee, compensation to JAC, labor costs, manufacturing overhead (including depreciation of assets associated with the production) and reserves for estimated warranty expenses. Cost of vehicle revenue also includes adjustments to warranty expense and charges to write down the carrying value of the inventory when it exceeds its estimated net realizable value and to provide for on-hand inventory that is either obsolete or in excess of forecasted demand.

Service and Other

Cost of service and other revenue includes parts and materials, labor costs, vehicle connectivity costs, and depreciation of assets that are associated with sales of service and energy packages.

Warranty liabilities

We accrue a warranty reserve for all new vehicles sold by us, which includes our best estimate of the projected costs to repair or replace items under warranties. These estimates are based on actual claims incurred to date and an estimate of the nature, frequency and costs of future claims. These estimates are inherently uncertain given our relatively short history of sales, and changes to the historical or projected warranty experience may cause material changes to the warranty reserve when we accumulate more actual data and experience in the future.

The portion of the warranty reserve expected to be incurred within the next 12 months is included within accruals and other liabilities, while the remaining balance is included within other non-current liabilities on the consolidated balance sheets. Warranty expense is recorded as a component of cost of revenues in the consolidated statements of comprehensive loss.

Allowance for doubtful accounts and current expected credit losses

Prior to 2020, we provided an allowance against accounts receivable when there was doubt as to the collectability of individual balances. We wrote off accounts receivable when they were deemed uncollectible. In 2016, the FASB issued ASU No. 2016-13, "Financial Instruments — Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("**ASC Topic 326**"), which amends previously issued guidance regarding the impairment of financial instruments by creating an impairment model that is based on expected losses rather than incurred losses. We adopted this ASC Topic 326 and several associated ASUs on January 1, 2020 using a modified retrospective approach with a cumulative effect recorded as increase of accumulated deficit with amount of RMB23.0 million. As of January 1, 2020, upon the adoption, the expected credit loss provision for the current and non-current assets were RMB118.9 million and RMB12.9 million, respectively.

Our trade receivable, receivables of installment payments, auto financing receivables, deposits and other receivables are within the scope of ASC Topic 326. We have identified the relevant risk characteristics of our customers and the related receivables, deposits and other receivables which include size, type of the services or the products we provide, or a combination of these characteristics. Receivables with similar risk characteristics have been grouped into pools. For each pool, we consider the historical credit loss experience, current economic conditions, supportable forecasts of future economic conditions, and any recoveries in assessing the lifetime expected credit losses. Other key factors that influence the expected credit loss analysis include customer demographics, payment terms offered in the normal course of business to customers, and industry-specific factors that could impact our receivables. Additionally, external data and macroeconomic factors are also considered. This is assessed at each quarter based on our specific facts and circumstances.

For the year ended December 31, 2020 and for the nine months ended September 30, 2021, we recorded RMB9.7 million and RMB38.3 million (US$5.9 million), respectively, expected credit loss expense in selling, general and administrative expenses. As of December 31, 2020 and September 30, 2021, the expected credit loss provision for the current and non-current assets amounted to RMB64.7 million and RMB99.3 million (US$15.4 million), respectively.

Balance as at September 30, 2021 (in RMB thousands):

	Original amount	Expected credit loss rate	Expected credit loss provision
Current assets:			
Trade and notes receivable	3,322,076	1.33%	44,165
Amounts due from related parties	1,048,656	–	–
Prepayments and other current assets	1,332,340	0.26%	3,517
Non-current assets:			
Other non-current assets	4,813,221	1.07%	51,633

Balance as at December 31, 2020 (in RMB thousands):

	Original amount	Expected credit loss rate	Expected credit loss provision
Current assets:			
Trade receivable	1,123,920	3.61%	40,548
Amounts due from related parties	169,288	–	–
Prepayments and other current assets	1,422,403	0.29%	4,097
Non-current assets:			
Amounts due from related parties	617	–	–
Other non-current assets	1,561,755	1.28%	20,031

Our expected credit loss rate for trade and notes receivable decreased from 3.61% as at 31 December 2020 to 1.33% as at 30 September 2021, primarily attributable to: (i) the larger portion of auto financing receivables in trade and notes receivable with lower expected credit loss rate considering its risk characteristics and industry-specific factors; and (ii) the better forward-looking factors embedded considering the general recovery of macro-economic factors such as Gross Domestic Product and Consumer Price Index of China.

Share-based compensation

We grant restricted shares and share options to eligible employees and non-employee consultants and account for share-based compensation in accordance with ASC 718, Compensation — Stock Compensation and ASC 505-50, Equity-Based Payments to Non-Employees. There were no new grants to non-employee consultants after the effectiveness of ASU 2018-07 — Compensation — stock compensation (Topic 718) — Improvements to non-employee share-based payment accounting.

Employees' share-based compensation awards are measured at the grant date fair value of the awards and recognized as expenses (a) immediately at the grant date if no vesting conditions are required; (b) for share options or restricted shares granted with only service conditions, using the straight-line vesting method, net of estimated forfeitures, over the vesting period; (c) for share options granted with service conditions and the occurrence of an initial public offering as performance condition, cumulative share-based compensation expenses for the options that have satisfied the service condition should be recorded upon the completion of the initial public offering, using the graded vesting method. This performance condition was met upon completion of our initial public offering on September 12, 2018 and the associated share-based compensation expense for awards vested as of that date were recognized, or (d) for share options where the underlying share is liability within the scope of ASC 480, using the graded vesting method, net of estimated forfeitures, over the vesting period, and re-measuring the fair value of the award at each reporting period end until the award is settled.

All transactions in which goods or services are received in exchange for equity instruments are accounted for based on the fair value of the consideration received or the fair value of the equity instrument issued, whichever is more reliably measurable.

Share-based compensation expenses for share options and restricted shares granted to non-employees are measured at fair value at the earlier of the performance commitment date or the date service is completed, and recognized over the period during which the service is provided. We apply the guidance in ASC 505-50 to measure share options and restricted shares granted to non-employees based on the then-current fair value at each reporting date.

Before the completion of our initial public offering, the fair value of the restricted shares was assessed using the income approaches/market approaches, with a discount for lack of marketability given that the shares underlying the awards were not publicly traded at the time of grant. This assessment required complex and subjective judgments regarding our projected financial and operating results, our unique business risks, the liquidity of our ordinary shares and our operating history and prospects at the time the grants were made. Upon the completion of our initial public offering, the fair value of the restricted shares is based on the fair market value of the underlying ordinary shares on the date of grant. In addition, the binomial option-pricing model is used to measure the value of share options. The determination of the fair value is affected by the fair value of the ordinary shares as well as assumptions, including the expected share price volatility, actual and projected employee and non-employee share option exercise behavior, risk-free interest rates and expected dividends. The fair value of these awards was determined taking into account independent valuation advice.

The assumptions used in share-based compensation expense recognition represent management's best estimates, but these estimates involve inherent uncertainties and application of management judgment. If factors change or different assumptions are used, the share-based compensation expenses could be materially different for any period. Moreover, the estimates of fair value of the awards are not intended to predict actual future events or the value that ultimately will be realized by grantees who receive share-based awards, and subsequent events are not indicative of the reasonableness of the original estimates of fair value made by us for accounting purposes.

Forfeitures are estimated at the time of grant and revised in subsequent periods if actual forfeitures differ from those estimates. We use historical data to estimate pre-vesting options and record share-based compensation expenses only for those awards that are expected to vest.

Earnings/(Loss) per share

Basic earnings/(loss) per share is computed by dividing net income/(loss) attributable to holders of ordinary shares, considering the accretions to redemption value of the preferred shares, by the weighted average number of ordinary shares outstanding during the period using the two-class method. Under the two-class method, net income is allocated between ordinary shares and other participating securities based on their participating rights. Diluted earnings/(loss) per share is calculated by dividing net income/(loss) attributable to ordinary shareholders, as adjusted for the accretion and allocation of net income related to the preferred shares, if any, by the weighted average number of ordinary and dilutive ordinary equivalent shares outstanding during the period. Ordinary equivalent shares consist of shares issuable upon the conversion of the preferred shares using the if-converted method, unvested restricted shares, RSUs and ordinary shares issuable upon the exercise of outstanding share options (using the treasury stock method). Ordinary equivalent shares are not included in the denominator of the diluted earnings per share calculation when inclusion of such shares would be anti-dilutive.

Segment reporting

ASC 280, Segment Reporting, establishes standards for companies to report in their financial statements information about operating segments, products, services, geographic areas, and major customers.

Based on the criteria established by ASC 280, our chief operating decision maker ("**CODM**") has been identified as our Chief Executive Officer, who reviews consolidated results when making decisions about allocating resources and assessing performance of the Group. As a whole and hence, we have only one reportable segment. We do not distinguish between markets or segments for the purpose of internal reporting. As our long-lived assets are substantially located in the PRC, no geographical segments are presented.

Income taxes

Current income taxes are recorded in accordance with the regulations of the relevant tax jurisdiction. We account for income taxes under the asset and liability method in accordance with ASC 740, Income Tax. Under this method, deferred tax assets and liabilities are recognized for the tax consequences attributable to differences between carrying amounts of existing assets and liabilities in the financial statements and their respective tax basis, and operating loss carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in the consolidated statements of comprehensive loss in the period of change. Valuation allowances are established when necessary to reduce the amount of deferred tax assets if it is considered more likely than not that amount of the deferred tax assets will not be realized.

We record liabilities related to uncertain tax positions when, despite our belief that our tax return positions are supportable, we believe that it is more likely than not that those positions may not be fully sustained upon review by tax authorities. Accrued interest and penalties related to unrecognized tax benefits are classified as income tax expense. We did not recognize uncertain tax positions as of December 31, 2018, 2019, 2020 and September 30, 2021.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

For a summary of recently issued accounting pronouncements, see Note 3 to the Accountant's Report in Appendix I.

RESULTS OF OPERATIONS

The following table sets forth a summary of our consolidated results of operations for the periods indicated. This information should be read together with our consolidated financial statements and related notes included elsewhere in this document. The operating results in any year are not necessarily indicative of the results that may be expected for any future periods.

	Year Ended December 31,			Nine Months Ended September 30,		
	2018	2019	2020	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands)					
				(unaudited)		
Revenues:[1]						
Vehicle sales	4,852,470	7,367,113	15,182,522	9,008,474	23,954,365	3,717,659
Other sales[3]	98,701	457,791	1,075,411	608,368	2,281,316	354,055
Total revenues	**4,951,171**	**7,824,904**	**16,257,933**	**9,616,842**	**26,235,681**	**4,071,714**
Cost of sales:[2]						
Vehicle sales	(4,930,135)	(8,096,035)	(13,255,770)	(8,146,439)	(19,225,123)	(2,983,692)
Other sales	(276,912)	(927,691)	(1,128,744)	(738,929)	(1,888,669)	(293,117)
Total cost of sales	**(5,207,047)**	**(9,023,726)**	**(14,384,514)**	**(8,885,368)**	**(21,113,792)**	**(3,276,809)**
Gross (loss)/profit[4]	(255,876)	(1,198,822)	1,873,419	731,474	5,121,889	794,905
Operating expenses:[2]						
Research and development[2]	(3,997,942)	(4,428,580)	(2,487,770)	(1,658,327)	(2,763,336)	(428,863)
Selling, general and administrative[2]	(5,341,790)	(5,451,787)	(3,932,271)	(2,725,465)	(4,519,883)	(701,475)
Other operating (loss)/income, net	–	–	(61,023)	(23,941)	110,158	17,096
Total operating expenses	**(9,339,732)**	**(9,880,367)**	**(6,481,064)**	**(4,407,733)**	**(7,173,061)**	**(1,113,242)**
Loss from operations	**(9,595,608)**	**(11,079,189)**	**(4,607,645)**	**(3,676,259)**	**(2,051,172)**	**(318,337)**
Interest income	133,384	160,279	166,904	89,885	552,772	85,789
Interest expenses	(123,643)	(370,536)	(426,015)	(332,174)	(561,473)	(87,139)
Share of (losses)/profits of equity investees	(9,722)	(64,478)	(66,030)	(32,061)	64,207	9,965
Other (loss)/income, net	(21,346)	66,160	(364,928)	39,854	131,164	20,356
Loss before income tax expenses	**(9,616,935)**	**(11,287,764)**	**(5,297,714)**	**(3,910,755)**	**(1,864,502)**	**(289,366)**
Income tax expense	(22,044)	(7,888)	(6,368)	(4,704)	(9,018)	(1,400)
Net loss[5]	**(9,638,979)**	**(11,295,652)**	**(5,304,082)**	**(3,915,459)**	**(1,873,520)**	**(290,766)**

	Year Ended December 31,			Nine Months Ended September 30,		
	2018	2019	2020	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands)					
				(unaudited)		
Other comprehensive (loss)/income						
Foreign currency translation adjustment, net of nil tax	(20,786)	(168,340)	137,596	104,920	(168,944)	(26,220)
Total other comprehensive (loss)/income	**(20,786)**	**(168,340)**	**137,596**	**104,920**	**(168,944)**	**(26,220)**
Total comprehensive loss	**(9,659,765)**	**(11,463,992)**	**(5,166,486)**	**(3,810,539)**	**(2,042,464)**	**(316,986)**
Accretion on convertible redeemable preferred shares to redemption value	(13,667,291)	–	–	–	–	–
Accretion on redeemable non-controlling interests to redemption value	(63,297)	(126,590)	(311,670)	(205,864)	(6,519,698)	(1,011,841)
Net loss attributable to non-controlling interests	41,705	9,141	4,962	2,703	131	20
Comprehensive loss attributable to ordinary shareholders of NIO Inc.	**(23,348,648)**	**(11,581,441)**	**(5,473,194)**	**(4,013,700)**	**(8,562,031)**	**(1,328,807)**

Notes:

(1) We began generating revenues in June 2018, when we began making deliveries and sales of the ES8. We currently generate revenues from vehicle sales and other sales.

(2) Share-based compensation expenses were allocated in cost of sales and operating expenses as follows:

	Year Ended December 31,			Nine Months Ended September 30,		
	2018	2019	2020	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands)					
				(unaudited)		
Cost of sales	9,289	9,763	5,564	3,575	22,065	3,424
Research and development expenses	109,124	82,680	51,024	32,595	217,456	33,749
Selling, general and administrative expenses	561,055	241,052	130,506	90,725	373,928	58,033
Total	**679,468**	**333,495**	**187,094**	**126,895**	**613,449**	**95,206**

(3) Other sales mainly consist of revenues from sales of our service package and energy package, battery upgrade service, automotive regulatory credits, accessories, and a number of embedded products and services offered together with vehicle sales. Embedded products and services include home chargers, vehicle connectivity service, extended warranty and battery swapping service.

(4) We had gross profit for the first time in 2020, primarily due to the increased revenue from vehicle sales.

(5) The increase of net loss for the year ended December 31, 2019 compared with the year ended December 31, 2018 was mainly due to the increased gross loss from our sales of vehicles as a result of high cost of sales in the early production stage, and the increase of our research and development expenses. Research and development expenses increased in 2019 mainly due to the increase in design and development expenses, primarily due to the incurrence of incremental design and development costs for the ES6, EC6 and all-new ES8, and the increase in employee compensation as a result of increased number of our research and development employees. The decrease of net loss for the year ended December 31, 2020 was mainly due to the increase of gross profit from increased sales of vehicles, and decrease of operating expenses. The decrease of net loss for the nine months ended September 30, 2021 compared with the corresponding period was mainly due to the increase of gross profit from increased sales of vehicles.

Nine Months Ended September 30, 2021 and 2020

Revenues

Our revenues increased by 172.8% from RMB9,616.8 million in the nine months ended September 30, 2020 to RMB26,235.7 million (US$4,071.7 million) in the nine months ended September 30, 2021, primarily attributable to (i) an increase of vehicle delivery volume in the nine months ended September 30, 2021 as compared to the nine months ended September 30, 2020, (ii) an increase in the average selling price of our vehicles; (iii) an increase in revenue from the sales of automotive regulatory credits; (iv) an increase in other revenue, which was in line with the incremental vehicle sales, and (v) an increase in revenue from the battery upgrade service.

Cost of sales

Our cost of sales increased by 137.6% from RMB8,885.4 million in the nine months ended September 30, 2020 to RMB21,113.8 million (US$3,276.8 million) in the nine months ended September 30, 2021, mainly due to the increase of vehicle delivery volume in the first nine months of 2021.

Gross Profit and Gross Margin

Our gross profit increased significantly from RMB731.5 million in the nine months ended September 30, 2020 to RMB5,121.9 million (US$794.9 million) in the nine months ended September 30, 2021. The increase of gross profit compared to the nine months ended September 30, 2020 was mainly driven by the increase of vehicle delivery volume and vehicle margin.

Gross margin in the nine months ended September 30, 2021 was 19.5%, compared with 7.6% in the nine months ended September 30, 2020. The increase of gross margin as compared to the nine months ended September 30, 2020 was mainly driven by the increase of vehicle margin in the nine months ended September 30, 2021.

Vehicle margin in the nine months ended September 30, 2021 was 19.7%, compared with 9.6% in the nine months ended September 30, 2020. The increase of vehicle margin as compared to the nine months ended September 30, 2020 was mainly driven by the economies of scale achieved as a result of vehicle production and delivery volume increase, and higher average selling price.

Other sales margin in the nine months ended September 30, 2021 was 17.2%, compared with negative 21.5% in the nine months ended September 30, 2020, which was mainly driven by the sales of automotive regulatory credits and the sales of packages.

Research and Development Expenses

Research and development expenses increased by 66.6% from RMB1,658.3 million in the nine months ended September 30, 2020 to RMB2,763.3 million (US$428.9 million) in the nine months ended September 30, 2021, primarily due to increased personnel costs in research and development functions as well as the incremental design and development costs for new products and technologies.

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased by 65.8% from RMB2,725.5 million in the nine months ended September 30, 2020 to RMB4,519.9 million (US$701.5 million) in the nine months ended September 30, 2021, primarily due to the increase of personnel costs in sales and service functions, cost related to sales and service network expansion as well as marketing activities in the first nine months of 2021.

Loss from Operations

As a result of the foregoing, we incurred a loss from operations of RMB2,051.2 million (US$318.3 million) in the nine months ended September 30, 2021, representing a decrease of 44.2% as compared to a loss of RMB3,676.3 million in the nine months ended September 30, 2020.

Interest Income

We recorded interest income of RMB552.8 million (US$85.8 million) in the nine months ended September 30, 2021, representing a significant increase as compared to RMB89.9 million in the nine months ended September 30, 2020, primarily due to a significant increase in short-term investment.

Interest Expense

Our interest expense increased from RMB332.2 million in the nine months ended September 30, 2020 to RMB561.5 million (US$87.1 million) in the nine months ended September 30, 2021, primarily due to the conversion premium charged in connection with separately and individually negotiated agreements with certain holders of their outstanding 2024 Note for early conversion in January 2021.

Share of (Losses)/Profits of Equity Investees

We recorded share of profits of equity investees of RMB64.2 million (US$10.0 million) in the nine months ended September 30, 2021, as compared to share of losses of equity investee of RMB32.1 million in the nine months ended September 30, 2020, primarily due to the investment gains recorded from our equity investments measured under equity method in the nine months ended September 30, 2021.

Other Income, Net

Our other income increased from RMB39.9 million in the nine months ended September 30, 2020 to RMB131.2 million (US$20.4 million) in the nine months ended September 30, 2021, primarily due to foreign exchange adjustments in connection with the movements between the U.S. dollar and the Renminbi.

Income Tax Expense

In the nine months ended September 30, 2021, our income tax expense was RMB9.0 million (US$1.4 million), as compared to RMB4.7 million in the nine months ended September 30, 2020.

Net Loss

As a result of the foregoing, we incurred a net loss of RMB1,873.5 million (US$290.8 million) in the nine months ended September 30, 2021, representing a decrease of 52.2% as compared to a net loss of RMB3,915.5 million in the nine months ended September 30, 2020.

Accretion on redeemable non-controlling interests to redemption value

Our accretion on redeemable non-controlling interests to redemption value increased from RMB205.9 million for the nine months ended September 30, 2020 to RMB6.5 billion for the nine months ended September 30, 2021, primarily attributable to our redemption of redeemable non-controlling interests in NIO China from certain Hefei Strategic Investors occurred in February and September 2021 with consideration higher than the carrying value of redeemable non-controlling interest.

Years Ended December 31, 2020 and 2019

Revenues

Our revenues increased by 107.8% from RMB7,824.9 million in 2019 to RMB16,257.9 million in 2020, primarily attributable to (i) an increase in the number of vehicles sold in 2020 as compared to 2019, and (ii) an increase in the incremental revenue recognized from user rights and service packages, which was in line with the growth of our vehicle sales.

Cost of sales

Our cost of sales increased by 59.4% from RMB9,023.7 million in 2019 to RMB14,384.5 million in 2020, mainly due to the increase of delivery volume of the ES6, the ES8, and the EC6 in 2020.

Gross Profit/(Loss) and Gross Margin

Gross profit in 2020 was RMB1,873.4 million, representing an increase of RMB3,072.2 million from a gross loss of RMB1,198.8 million in 2019. The increase of gross profit as compared to 2019 was mainly driven by the increase of vehicle delivery volume and vehicle margin.

Gross margin for 2020 was 11.5%, compared with negative 15.3% in 2019. The increase of gross margin as compared to 2019 was mainly driven by the increase of vehicle margin in 2020.

Vehicle margin in 2020 was 12.7%, compared with negative 9.9% in 2019. The increase of vehicle margin compared to 2019 was jointly driven by the lower per unit material cost and fixed cost achieved through economies of scale as a result of vehicle delivery and production volume increase.

Other sales margin in 2020 was negative 5%, compared with negative 102.6% in 2019, which was mainly driven by the increase of sales of packages and automotive regulatory credits.

Research and Development Expenses

Research and development expenses decreased by 43.8% from RMB4,428.6 million in 2019 to RMB2,487.8 million in 2020, primarily due to (i) a 61.9% decrease in design and development expenses, which decreased from RMB2,041.0 million in 2019 to RMB778.5 million in 2020 primarily due to higher design and development expenses incurred before the launch of the ES6 and the all-new ES8 in 2019, as well as reduced design and development activities as a result of the COVID-19 pandemic in 2020; and (ii) a 32.1% decrease in employee compensation for our research and development employees, which decreased from RMB2,004.9 million in 2019 to RMB1,362.2 million in 2020 primarily due to decrease in the number of our research and development employees (including employees of our product and software development teams) attributable to our continuous cost control efforts.

Selling, General and Administrative Expenses

Selling, general and administrative expenses decreased by 27.9% from RMB5,451.8 million in 2019 to RMB3,932.3 million in 2020, primarily due to (i) a 24.4% decrease in employee compensation, which decreased from RMB2,231.7 million in 2019 to RMB1,687.9 million in 2020, due to a decrease in the number of our administrative employees attributable to our continuous cost control efforts; and (ii) a 17.5% decrease in marketing and promotional expenses, which decreased from RMB818.1 million in 2019 to RMB675.1 million in 2020, primarily due to a decrease in offline marketing and promotional activities as a result of the COVID-19 pandemic.

Loss from Operations

As a result of the foregoing, we incurred a loss from operations of RMB4,607.6 million in 2020, as compared to a loss of RMB11,079.2 million in 2019.

Interest Income

In 2020, we recorded interest income of RMB166.9 million, as compared to RMB160.3 million in 2019.

Interest Expense

In 2020, we recorded interest expense of RMB426.0 million, as compared to interest expense of RMB370.5 million in 2019, primarily because the principal amount of convertible notes outstanding was higher in 2020 due to the issuance of the Affiliate Notes and the 2021 Notes, and to a lesser extent, the interest-bearing period of our long-term convertible notes issued in February 2019 was shorter in 2019 than in 2020.

Share of Losses of Equity Investees

We recorded share of losses of equity investees of RMB66.0 million in 2020, as compared with share of losses of equity investee of RMB64.5 million in 2019.

Other (Loss)/Income, Net

We recorded other loss of RMB364.9 million in 2020, as compared to other income of RMB66.2 million in 2019, primarily due to foreign exchange adjustments in connection with the movements between the U.S. dollar and the Renminbi, which was partially offset by the effect of income from reimbursement from depositary bank.

Income Tax Expense

In 2020, our income tax expense was RMB6.4 million, as compared to RMB7.9 million in 2019.

Net Loss

As a result of the foregoing, we incurred a net loss of RMB5,304.1 million in 2020, as compared to a net loss of RMB11,295.7 million in 2019.

Years Ended December 31, 2019 and 2018

Revenues

Our revenues increased by 58.0% from RMB4,951.2 million in 2018 to RMB7,824.9 million in 2019, primarily attributable to (i) an increase in the number of vehicles sold in 2019, and (ii) an increase in the incremental revenue recognized from user rights and service packages, which was in line with the growth of our vehicle sales.

Cost of sales

Our cost of sales increased by 73.3% from RMB5,207.0 million in 2018 to RMB9,023.7 million in 2019, mainly due to (i) an increase in parts and materials and manufacturing overhead (including depreciation of assets associated with the production) by RMB3,007.3 million; (ii) an increase in manufacturing and processing fees and relevant expenses and compensation to JAC for its operating losses incurred in the amount of RMB199.1 million; and (iii) an increase in labor costs that are associated with sales of service and energy packages by RMB146.0 million.

Gross Loss and Gross Margin

Gross Loss in 2019 was RMB1,198.8 million, representing an increase of RMB942.9 million from a gross loss of RMB255.9 million in 2018. The increase of gross loss compared to 2018 was mainly due to the negative impact of battery recall costs incurred in 2019.

Gross margin in 2019 was negative 15.3%, compared with negative 5.2% in 2018. The decrease of gross margin compared to 2018 was mainly due to the decrease of vehicle margin in 2019.

Vehicle margin in 2019 was negative 9.9%, compared with negative 1.6% in 2018. The decrease of vehicle margin was mainly due to the negative impact of battery recall costs incurred in 2019.

Other sales margin in 2019 was negative 102.6%, compared with negative 180.6% in 2018, which was mainly driven by the increase of sales of packages.

Research and Development Expenses

Research and development expenses increased by 10.8% from RMB3,997.9 million in 2018 to RMB4,428.6 million in 2019, primarily due to (i) an 11.7% increase in design and development expenses, which increased from RMB1,828.0 million in 2018 to RMB2,041.0 million in 2019 primarily due to the incurrence of incremental design and development costs for the ES6, EC6 and all-new ES8; and (ii) an 8.3% increase in employee compensation for our research and development employees, which increased from RMB1,850.9 million in 2018 to RMB2,004.9 million in 2019 primarily due to an increase in the year-round average number of our research and development employees (including employees of our product and software development teams).

Selling, General and Administrative Expenses

Selling, general and administrative expenses increased slightly by 2.1% from RMB5,341.8 million in 2018 to RMB5,451.8 million in 2019, primarily due to (i) a 63.9% increase in rental and related expenses, which increased from RMB450.1 million in 2018 to RMB737.6 million in 2019, due to the expansion of our network of NIO Houses and NIO Spaces since the second half of 2018; (ii) an 83.1% increase in depreciation and amortization expenses, which increased from RMB249.8 million in 2018 to RMB457.4 million in 2019, primarily due to the increased depreciation expenses from leasehold improvement of NIO Houses and office buildings; and (iii) a 32.0% increase in other expenses, which increased from RMB284.0 million in 2018 to RMB375.0 million in 2019 primarily due to the recognition of certain accrued allowance against receivables in 2019, partially offset by a decrease in marketing and promotional expenses from RMB1,158.5 million in 2018 to RMB818.1 million in 2019 in connection with reduced marketing and promotional activities.

Loss from Operations

As a result of the foregoing, we incurred a loss from operations of RMB11,079.2 million in 2019, as compared to a loss of RMB9,595.6 million in 2018.

Interest Income

In 2019, we recorded interest income of RMB160.3 million as compared to RMB133.4 million in 2018, primarily due to the interest income received on higher cash balances deposited with banks in 2019.

Interest Expense

In 2019, we recorded interest expense of RMB370.5 million, as compared to interest expense of RMB123.6 million in 2018, primarily due to an increase in our indebtedness (including the 2024 Notes, the Affiliate Notes and bank debt) in 2019.

Share of Losses of Equity Investees

We recorded share of losses of equity investees of RMB64.5 million in 2019, as compared with share of losses of equity investee of RMB9.7 million in 2018, primarily because most of our equity investees were loss-making start-up companies.

Other (Loss)/Income, Net

We recorded other income of RMB66.2 million in 2019, as compared to other loss of RMB21.3 million in 2018, primarily due to the investment gains of RMB40.7 million we recorded from the disposal of our investment in a private company, invested through Miracle Mission Limited, an entity affiliated with our founder, to a third party investor, measured at the difference of cash received from the disposal and the original investment amount.

Income Tax Expense

In 2019, our income tax expense was RMB7.9 million, a decrease of 64.2% from RMB22.0 million in 2018, which was primarily due to our reduced business scale in Germany and the United Kingdom.

Net Loss

As a result of the foregoing, we incurred a net loss of RMB11,295.7 million in 2019, as compared to a net loss of RMB9,639.0 million in 2018.

CERTAIN BALANCE SHEET ITEMS

Receivables (trade in nature, including current and non-current portion)

Our receivable primarily includes current and non-current amounts of vehicle sales in relation of government subsidy to be collected from government on behalf of customers, battery installment, auto financing receivables and receivables due from vehicle users and related party, which are trade in nature.

	December 31, 2018	December 31, 2019	December 31, 2020	September 30, 2021	
	RMB	RMB	RMB	RMB	US$
			(in thousands)		
Receivables – gross	1,331,185	2,095,724	2,531,107	8,281,204	1,285,223
Bad debt provision/Current expected credit loss	–	(85,824)	(55,692)	(84,798)	(13,161)
Receivables – net	1,331,185	2,009,900	2,475,415	8,196,406	1,272,062

The following table sets forth an aging analysis of our receivables as of the dates indicated:

	December 31, 2018	December 31, 2019	December 31, 2020	September 30, 2021	
	RMB	RMB	RMB	RMB	US$
			(in thousands)		
Up to 180 days	1,329,989	1,047,110	1,402,406	6,496,024	1,008,168
181 to 365 days	1,196	532,919	259,822	527,015	81,791
1 to 2 years	–	515,695	597,726	547,252	84,932
Over 2 years	–	–	271,153	710,913	110,332
Total	**1,331,185**	**2,095,724**	**2,531,107**	**8,281,204**	**1,285,223**

The following table sets forth the average turnover days of our receivables for the periods indicated:

	Year Ended December 31,			Nine Months Ended September 30,
	2018	2019	2020	2021
Average turnover days of receivables[(1)] . . .	49.1	79.9	51.9	55.6

Note:

(1) Turnover days of receivables is derived by dividing the arithmetic mean of the opening and closing balances of receivables for the relevant period by revenue and multiplying by 365 days or the numbers of days for the given period.

Our average receivables turnover days increased in 2019 primarily due to the delayed receipt of payment for the settlement of receivables from certain customers. Our average receivables turnover days decreased in 2020 primarily due to the quick settlement of receivables and increased revenue with cash collection received in advance. Our average receivables turnover days increased in the nine months ended September 30, 2021 primarily due to the increase of auto financing receivables under auto financing arrangement.

Approximately RMB1,793.2 million, or 21.7%, of our receivables as of September 30, 2021 had been subsequently settled as of December 31, 2021. There are no significant recoverability issues for the Group's trade receivables aged over 180 days as the majority of receivables include amounts of vehicle sales in relation to government subsidy to be collected from government on behalf of customers. However, we have provided current expected credit loss of nil, RMB 85.8 million, RMB 30.9 million and RMB 32.1 million against the carrying value of receivables aged over 180 days as at December 31, 2018, 2019, 2020 and September 30, 2021, respectively, by taking consideration of historical loss and forward looking factors under the current expected credit loss model.

Inventory

Our inventories include raw materials we purchase from suppliers, our finished goods, merchandise and work in progress. See Note 2 "Summary of significant accounting policies — Inventories" of Accountant's Report in Appendix I of this document for further details of our accounting policies on inventory.

Our inventory consists of the following:

	December 31, 2018	December 31, 2019	December 31, 2020	September 30, 2021	
	RMB	RMB	RMB	RMB	US$
			(in thousands)		
Raw materials	696,005	510,990	579,842	965,624	149,862
Work in process	6,727	1,862	2,995	5,160	801
Finished goods	723,591	291,116	381,387	528,957	82,093
Merchandise	38,916	95,987	121,978	205,394	31,877
Less: write-downs	–	(10,427)	(4,649)	(2,130)	(331)
Total	**1,465,239**	**889,528**	**1,081,553**	**1,703,005**	**264,302**

The following table sets forth an aging analysis of our inventories as of the dates indicated:

	December 31, 2018	December 31, 2019	December 31, 2020	September 30, 2021	
	RMB	RMB	RMB	RMB	US$
			(in thousands)		
Up to 90 days	1,369,590	749,848	998,513	1,528,274	237,184
91 to 180 days	28,922	51,707	23,417	44,831	6,958
181 to 365 days	61,169	77,645	38,369	63,061	9,787
1 to 2 years	5,558	19,282	20,481	16,937	2,629
Over 2 years	–	1,473	5,422	52,032	8,075
Total	**1,465,239**	**899,955**	**1,086,202**	**1,705,135**	**264,633**

The following table sets forth the average turnover days of our inventories for the periods indicated:

	Year Ended December 31,			Nine Months Ended September 30,
	2018	2019	2020	2021
Average turnover days of inventories(1)	54.5	47.8	25.2	17.8

Note:

(1) Calculated using the average of the beginning and ending inventory balances of the period, divided by cost of sales for the period and multiplied by 365 days for a year in respect of the periods indicated.

Our average turnover days decreased in the year ended December 31, 2019 primarily due to improved management of our inventories, and further decreased in the year ended December 31, 2020 and the nine months ended September 30, 2021 primarily due to the acceleration of inventory turnover.

Approximately RMB1,577.5 million, or 92.5%, of our inventories as of September 30, 2021 had been subsequently used or sold as of December 31, 2021.

Short-term investments

Our short-term investments consist primarily of investments in fixed deposits with maturities between three months and one year and investments in money market funds and financial products issued by banks. As of December 31, 2018, 2019, 2020 and September 30, 2021, our short-term investments amounted to RMB5,154.7 million, RMB111.0 million, RMB3,950.7 million and RMB21,706.4 million (US$3,368.8 million), respectively. The increase of short-term investments as of September 30, 2021 compared with December 31, 2020 was primarily due to our increased investments in financial products issued by banks for cash management. See Note 2 "Summary of significant accounting policies – short-term investments" of Accountant's Report in Appendix I of this document for further details of our accounting policies on short-term investments. For the years ended December 31, 2018, 2019, 2020 and for the nine months ended September 30, 2021, income from these short-term investments amounted to RMB43.3 million, RMB73.8 million, RMB31.8 million and RMB301.8 million (US$46.8 million), respectively.

Trade and notes payable

Our trade and notes payable consist primarily of payables of purchase of goods and services in our operations. As of December 31, 2018, 2019, 2020 and September 30, 2021, our trade and notes payable amounted to RMB2,870.0 million, RMB3,111.7 million, RMB6,368.3 million and RMB10,798.3 million (US$1,675.9 million), respectively. The increase of trade and notes payable was mainly due to increased purchase of goods and services in line with our increase business growth.

Accruals and other liabilities

Our accruals and other liabilities consist primarily of payables for purchase of property and equipment, advance from customers, payable for R&D expenses, and payables for marketing events, etc. As of December 31, 2018, 2019, 2020 and September 30, 2021, our accruals and other liabilities amounted to RMB3,383.7 million, RMB4,216.6 million, RMB4,604.0 million and RMB7,290.8 million (US$1,131.5 million), respectively. The increase of accruals and other liabilities as at December 31, 2019 compared with December 31, 2018 was mainly due to increased payable for R&D expenses and payables for purchase of property and equipment. The increase of accruals and other liabilities as at December 31, 2020 compared with December 31, 2019 was mainly due to increased payable to employees for options exercised and advance from customers, slightly offset by decrease of payables for purchase of property and equipment. The increase of accruals and other liabilities as at September 30, 2021 compared with December 31, 2020 was mainly due to the payables for repurchase of redeemable non-controlling interests and salaries and benefits payable, slightly offset by decrease of payable to employees for options exercised.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows and Working Capital

We had net cash used in operating activities of RMB7,911.8 million and RMB8,721.7 million in 2018 and 2019, respectively, and net cash provided by operating activities of RMB1,950.9 million in 2020. We had net cash used in operating activities of RMB196.7 million in the nine months ended September 30, 2020, and net cash provided by operating activities of RMB335.8 million (US$52.1 million) in the nine months ended September 30, 2021. Our principal sources of liquidity have been proceeds from issuances of equity securities, our notes offering, cash flow from business operations and our bank facilities.

As of December 31, 2020 and September 30, 2021, we had a total of RMB42,454.3 million and RMB46,957.0 million (US$7,287.6 million), respectively, in cash and cash equivalents, restricted cash and short-term investments. As of November 30, 2021, we had a total of RMB56,534.1 million in cash and cash equivalents, restricted cash and short-term investments. As of December 31, 2020 and September 30, 2021, 83.8% and 52.1%, respectively, of our cash and cash equivalents and restricted cash (including non-current restricted cash) were denominated in US$ and held in PRC, Hong Kong and United States, and the other cash and cash equivalents and restricted cash (including non-current restricted cash) were mainly denominated in Renminbi and held in the PRC. Our cash and cash equivalents consist primarily of cash on hand, time deposits and highly liquid investments placed with banks, which are unrestricted as to withdrawal and use, and which have original maturities of three months or less.

As of September 30, 2021, the total size of our bank facilities was RMB25,440.0 million (US$3,948.2 million), of which RMB5,360.0 million (US$831.9 million), RMB1,070.0 million (US$166.1 million) and RMB342.5 million (US$53.2 million) were utilized for borrowing, letters of guarantee and banker's acceptance, respectively.

As of December 31, 2020 and September 30, 2021, we had RMB5,938.3 million and RMB9,826.6 million (US$1,525.1 million), respectively, in total long-term borrowings outstanding, consisting primarily of the 2024 Notes, 2026 Notes and 2027 Notes, portions of the Affiliate Notes, and our long-term bank debt.

As of November 30, 2021, we had RMB9,829.0 million, in total long-term borrowings outstanding, consisting primarily of the 2026 Notes and 2027 Notes, portions of the asset-backed securities, and our long-term bank debt.

The 2021 Notes bore zero interest and matured in February 2021. Prior to maturity, the holders of the 2021 Notes had the right to convert either all or part of the principal amount of the 2021 Notes into Class A ordinary shares (or ADSs) of our Company pursuant to conversion price and conditions as set forth in the respective convertible notes purchase agreements. All of the 2021 Notes had been converted to ADSs as of December 31, 2020.

The 2024 Notes are unsecured debt and are not redeemable by us prior to the maturity date except for certain changes in tax law. In accordance with the indenture governing the 2024 Notes, or the 2024 Notes Indenture, holders of the 2024 Notes may require us to purchase all or any portion of their notes on February 1, 2022 at a repurchase price equal to 100% of the principal amount of the 2024 Notes to be repurchased, plus accrued and unpaid interest. Holders of the 2024 Notes may also require us, upon a fundamental change (as defined in the 2024 Notes Indenture), to repurchase for cash all or part of their 2024 Notes at a fundamental change repurchase price equal to 100% of the principal amount of the 2024 Notes to be repurchased, plus accrued and unpaid interest. The holders of the 2024 Notes may convert their notes to a number of our ADSs at their option at any time prior to the close of business on the second business day immediately preceding the maturity date pursuant to the 2024 Notes indenture, at a conversion rate of 105.1359 ADSs per US$1,000 principal amount of the 2024 Notes. The 2024 Notes that are converted in connection with a make-whole fundamental change (as defined in the 2024 Notes Indenture) may be entitled to an increase in the conversion rate for such 2024 Notes. In connection with the issuance of the 2024 Notes, we entered into capped call transactions and zero-strike call option transactions. Satisfying the obligations of the 2024 Notes could adversely affect the amount or timing of any distributions to our shareholders. As of the Latest Practicable date, approximately US$164 million principal amount of the 2024 Notes were outstanding. We may choose to satisfy, repurchase, or refinance the 2024 Notes through public or private equity or debt financings if we deem such financings available on favorable terms.

In January 2021, we issued US$750 million aggregate principal amount of 0.00% convertible senior notes due 2026, or the 2026 Notes, and US$750 million aggregate principal amount of 0.50% convertible senior notes due 2027, or the 2027 Notes. The 2026 Notes and the 2027 Notes are unsecured debt. The 2026 Notes will not bear interest, and the principal amount of the 2026 Notes will not accrete. The 2027 Notes will bear interest at a rate of 0.50% per year. The 2026 Notes will mature on February 1, 2026 and the 2027 Notes will mature on February 1, 2027, unless repurchased, redeemed or converted in accordance with their terms prior to such date. Prior to August 1, 2025, in the case of the 2026 Notes, and August 1, 2026, in the case of the 2027 Notes, the 2026 Notes and the 2027 Notes, as applicable, will be convertible at the option of the holders only upon satisfaction of certain conditions and during certain periods. Holders may convert their 2026 Notes or 2027 Notes, as applicable, at their option at any time on or after August 1, 2025, in the case of the 2026 Notes, or August 1, 2026, in the case of the 2027 Notes, until the close of business on the second scheduled trading day immediately preceding the relevant maturity date. Upon conversion, we will pay or deliver to such converting holders, as the case may be, cash, ADSs, or a combination of cash and ADSs, at our election. The initial conversion rate of the 2026 Notes is 10.7458 ADSs per US$1,000 principal amount of such 2026 Notes. The initial conversion rate of the 2027 Notes is 10.7458 ADSs per US$1,000 principal amount of such 2027 Notes. The relevant conversion rate for such series of the 2026 Notes and the 2027 Notes is subject to adjustment upon the occurrence of certain events. Holders of the 2026 Notes and the 2027 Notes may require us to repurchase all or part of their 2026 Notes and 2027 Notes for cash on February 1, 2024, in the case of the 2026 Notes, and February 1, 2025, in the case of the 2027 Notes, or in the event of certain fundamental changes, at a repurchase price equal to 100% of the principal amount of the 2026 Notes or the 2027 Notes to be repurchased, plus accrued and unpaid interest, if any, to, but excluding, the relevant repurchase date. In addition, on or after February 6, 2024, in the case of the 2026 Notes, and February 6, 2025, in the case of the 2027 Notes, until the 20th scheduled trading day immediately prior to the relevant maturity date, we may redeem the 2026 Notes or the 2027 Notes, as applicable for cash subject to certain conditions, at a redemption price equal to 100% of the principal amount of the 2026 Notes or the 2027 Notes to be redeemed, plus accrued and unpaid interest, if any, to, but excluding, the relevant optional redemption date. Furthermore, we may redeem all but not part of the 2026 Notes or the 2027 Notes in the event of certain changes in the tax laws. Satisfying the obligations of the 2026 Notes and the 2027 Notes could adversely affect the amount or timing of any distributions to our shareholders. We may choose to satisfy, repurchase, or refinance the 2026 Notes or the 2027 Notes through public or private equity or debt financings if we deem such financings available on favorable terms.

Shortly after the pricing of the 2026 Notes and the 2027 Notes in January 2021, we entered into separate and individually privately negotiated agreements with certain holders of the 2024 Notes to exchange approximately US$581.7 million principal amount of the outstanding 2024 Notes for ADSs (each, a "2024 Notes Exchange" and collectively, the "2024 Notes Exchanges"). The 2024 Notes Exchanges closed on January 15, 2021. In connection with the 2024 Notes Exchanges, we also entered into agreements with certain financial institutions that are parties to our existing capped call transactions (which we had entered into in February 2019 in connection with the issuance of the 2024 Notes) shortly after the pricing of the 2026 Notes and the 2027 Notes to terminate a portion of the relevant existing capped call transactions in a notional amount corresponding to the portion of the principal amount of such 2024 Notes exchanged. In connection with such terminations of the existing capped call transactions, we received deliveries of ADSs in such amounts as specified pursuant to such termination agreements on January 15, 2021.

The Affiliate Notes issued in the first tranche matured in 360 days, bore no interest, and required us to pay a premium at 2% of the principal amount at maturity. The Affiliate Notes issued in the second tranche will mature in three years, bear no interest, and require us to pay a premium at 6% of the principal amount at maturity. The 360-day Affiliate Notes are convertible into our Class A ordinary shares (or ADSs) at a conversion price of US$2.98 per ADS at the holder's option from the 15th day immediately prior to maturity, and the three-year convertible notes are convertible into our Class A ordinary shares (or ADSs) at a conversion price of US$3.12 per ADS at the holder's option from the first anniversary of the issuance date. The holders of the three-year Affiliate Notes will have the right to require us to repurchase for cash all of the convertible notes or any portion thereof on February 1, 2022. As of December 31, 2020, the 360-day Affiliate Notes issued to each of an affiliate of Tencent Holdings Limited and Mr. Bin Li have been converted to Class A ordinary shares and the three-year Affiliate Notes issued to the wholly owned company of Mr. Bin Li have been converted to ADSs.

Based on the outstanding principal amount of the convertible notes and the highest conversion rate under each of the relevant indenture, the maximum number of ADSs that would be issued in connection with the outstanding convertible notes is approximately 52 million.

We have been applying a variety of methods to manage our working capital. We use just-in-time, pull-production system to control the inventory level of the components. We adopt made-to-order model and do not maintain a high level of inventories of vehicles. We aim to fulfill orders and deliver vehicles to our users within 21 to 28 days from the date users place their orders. We manage the payment term policy to suppliers to improve our cash position. For most of our suppliers, the payment term ranges from 30 to 90 days. Meanwhile, payment methods can be a combination of cash and notes payable.

As of November 30, 2021, we had net current assets as below:

	November 30, 2021
	RMB
	(in thousands)
Current assets:	
Cash and cash equivalents	16,245,960
Restricted cash	2,933,168
Short-term investment	37,354,957
Trade and notes receivable	3,413,299
Amounts due from related parties	1,943,237
Inventory	2,048,893
Prepayments and other current assets	1,535,664
Expected credit loss provision – current	(46,476)
Total current assets	65,428,702

	November 30, 2021
	RMB
	(in thousands)
Current liabilities:	
Short-term borrowings	5,630,000
Trade and notes payable	11,548,443
Amounts due to related parties	658,504
Taxes payable	287,086
Current portion of operating lease liabilities	743,613
Current portion of long-term borrowings	2,191,671
Accruals and other liabilities	7,923,686
Total current liabilities	28,983,003
Net current assets	36,445,699

Our net current assets were RMB36,445.7 million as of November 30, 2021, as compared to our net current assets of RMB27,711.8 million as of September 30, 2021, primarily due to an increase in cash and cash equivalents, restricted cash and short-term investment of RMB9,577.0 million, as a whole, mainly as a result of our at-the-market equity offering program completed in November 2021.

We operate with continuous loss. As of the date of this document, the cash contribution obligations of us and the Hefei Strategic Investors have all been fulfilled, and we hold 92.114% controlling equity interests in NIO China. For details on the cash investment installments, please see "Business — Certain Other Cooperation Arrangements — Hefei Strategic Investors" included elsewhere in this document. We believe that our current cash and cash equivalents, short-term investment and cash generated from operations will be sufficient to support our continuous operations and to meet our payment obligations when liabilities fall due for the next 12 months. We may, however, decide to enhance our liquidity position or increase our cash reserve for future investments or operations through additional capital and finance funding. The issuance and sale of additional equity would result in further dilution to our shareholders. The incurrence of indebtedness would result in increased fixed obligations and could result in operating covenants that would restrict our operations.

Borrowings

As of December 31, 2020, our total borrowings, including current borrowings and non-current borrowings, were RMB7,868.8 million, primarily consisting of convertible notes of RMB5,196.5 million, bank loans of RMB2,234.3 million and loan from investors of RMB438.0 million. As of September 30, 2021, our total borrowings, including current borrowings and non-current borrowings, were RMB16.7 billion (US$2.6 billion), primarily consisting of convertible notes of RMB10.8 billion (US$1.7 billion), bank loans of RMB5,402.1 million (US$838.4 million), and loan from joint investor of RMB451.6 million (US$70.1 million). As of November 30, 2021, our total borrowings, including current borrowings and non-current borrowings, were RMB17.7 billion, primarily consisting of convertible notes of RMB10.7 billion, bank loans of RMB5,715 million, asset-backed securities of RMB806.8 million and loan from joint investor of RMB454.6 million.

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

	Year Ended December 31,			Nine Months Ended September 30,		
	2018	2019	2020	2020	2021	
	RMB	RMB	RMB	RMB	RMB	US$
	(in thousands)					
				(unaudited)		
Summary of Consolidated Cash Flow Data:						
Net cash (outflow used in)/inflow generated from operating activities before movements in working capital	(8,417,422)	(9,158,543)	(2,878,979)	(2,506,151)	182,899	28,385
Changes in operating assets and liabilities	505,654	436,837	4,829,873	2,309,439	152,935	23,736
Net cash (used in)/provided by operating activities	(7,911,768)	(8,721,706)	1,950,894	(196,712)	335,834	52,121
Net cash (used in)/provided by investing activities	(7,940,843)	3,382,069	(5,071,060)	(3,661,405)	(21,135,057)	(3,280,110)
Net cash provided by financing activities	11,603,092	3,094,953	41,357,435	22,515,102	7,528,360	1,168,383
Effects of exchange rate changes on, cash equivalents and restricted cash	(56,947)	10,166	(682,040)	(91,270)	20,738	3,218
Net (decrease)/increase in cash, cash equivalents and restricted cash	(4,306,466)	(2,234,518)	37,555,229	18,565,715	(13,250,125)	(2,056,388)
Cash, cash equivalents and restricted cash at beginning of the year/period	7,530,853	3,224,387	989,869	989,869	38,545,098	5,982,105
Cash, cash equivalents and restricted cash at end of the year/period	3,224,387	989,869	38,545,098	19,555,584	25,294,973	3,925,717

Operating Activities

Net cash provided by operating activities was RMB335.8 million (US$52.1 million) in the nine months ended September 30, 2021, primarily attributable to a net loss of RMB1,873.5 million (US$290.8 million), adjusted for (i) non-cash items of RMB2,056.4 million (US$319.2 million), which primarily consisted of depreciation and amortization of RMB1,145.5 million (US$177.8 million), share-based compensation expenses of RMB613.4 million (US$95.2 million), expected credit loss expense of RMB38.3 million (US$5.9 million) and amortization of right-of-use assets of RMB439.2 million (US$68.2 million), partially offset by foreign exchange gain of RMB122.1 million (US$18.9 million) and share of profits of equity investees of RMB64.2 million (US$10.0 million), (ii) a net decrease in operating assets and liabilities by RMB152.9 million (US$23.7 million), which was primarily attributable to an increase in trade and notes payable of RMB4,493.8 million (US$697.4 million), an increase of accruals and other liabilities of RMB1,117.3 million (US$173.4 million), a decrease in prepayments and other current assets of RMB198.3 million (US$30.8 million), which was partially offset by, among others, an increase of long-term receivables of RMB2,175.2 million (US$337.6 million), an increase in trade and notes receivable of RMB2,201.9 million (US$341.7 million), an increase in other non-current assets of RMB952.6 million (US$147.8 million) and an increase in inventory of RMB629.2 million (US$97.7 million).

Net cash provided by operating activities was RMB1,950.9 million in 2020, primarily attributable to a net loss of RMB5,304.1 million, adjusted for (i) non-cash items of RMB2,425.1 million, which primarily consisted of depreciation and amortization of RMB1,046.5 million, amortization of right-of-use assets of RMB499.2 million, share-based compensation expenses of RMB187.1 million and foreign exchange loss of RMB457.4 million, (ii) a net decrease in operating assets and liabilities by RMB4,829.9 million, which was primarily attributable to an increase in trade and notes payable of RMB3,256.6 million, an increase in accruals and other liabilities of RMB836.5 million, an increase in amount due to related parties of RMB465.5 million, an increase in other non-current liabilities of RMB665.6 million, an increase in trade and notes receivable of RMB2,201.9 million, an increase in amount due from related parties of RMB878.7 million, an increase in other non-current asset of RMB952.6 million and an increase in inventory of RMB197.8 million, which was partially offset by, among others, a decrease in operating lease liabilities of RMB448.5 million.

Net cash used in operating activities was RMB8,721.7 million in 2019, primarily attributable to a net loss of RMB11,295.7 million, adjusted for (i) non-cash items of RMB2,137.1 million, which primarily consisted of depreciation and amortization of RMB998.9 million and share-based compensation expenses of RMB333.5 million, and (ii) a net decrease in operating assets and liabilities by RMB436.8 million, which was primarily attributable to a decrease in inventory by RMB569.2 million, and an increase in accruals and other liabilities by RMB658.9 million, consisting primarily of research and development services, advance payments from ES8 and ES6 customers, salary and benefits payable and accounts payable in connection with marketing events. Net cash used in operating activities was partially offset by, among others, an increase in trade receivables by RMB681.6 million primarily consisting of an increase in the government subsidies relating to our vehicle sales, and payment of operating lease liabilities by RMB345.3 million.

Net cash used in operating activities was RMB7,911.8 million in 2018, primarily attributable to a net loss of RMB9,639.0 million, adjusted for (i) non-cash items of RMB1,221.6 million, which primarily consisted of share-based compensation expenses of RMB679.5 million and depreciation and amortization of RMB474.2 million, and (ii) a net decrease in operating assets and liabilities of RMB505.7 million, which was primarily attributable to an increase in trade payables of RMB2,635.7 million, consisting primarily of accounts payable relating to the purchase of inventory; an increase in accruals and other liabilities of RMB1,360.5 million, consisting primarily of research and development services, advance payments from ES8 customers, salary and benefits payable and accounts payable in connection with marketing events; and an increase in other non-current liabilities of RMB291.1 million, consisting primarily of rental payables, partially offset by, among others, an increase in inventory of RMB1,375.9 million, primarily related to purchase of raw materials, works in progress and finished goods; an increase in prepayments and other current assets of RMB835.6 million, consisting primarily of deductible value-added tax and prepaid expenses; an increase in trade receivables of RMB756.5 million, primarily consisting of an increase in the government subsidies relating to our vehicle sales and an increase in long-term receivables of RMB574.7 million, primarily resulting from battery payment installment arrangement with customers, and an increase in other non-current assets of RMB658.0 million.

Investing Activities

Net cash used in investing activities was RMB21,135.1 million (US$3,280.1 million) in the nine months ended September 30, 2021, primarily attributable to (i) purchases of short-term investments of RMB88,161.8 million (US$13,682.5 million), and (ii) purchase of property, plant and equipment and intangible assets of RMB2,394.9 million (US$371.7 million), partially offset by proceeds from sale of short-term investments of RMB70,364.5 million (US$10,920.4 million).

Net cash used in investing activities was RMB5,071.1 million in 2020, primarily attributable to (i) purchases of short-term investments of RMB7,594.1 million, (ii) purchase of property, plant and equipment and intangible assets of RMB1,127.7 million, and (iii) acquisition of equity investees of RMB250.8 million, partially offset by (i) proceeds from sale of short-term investments of RMB3,738.5 million, and (ii) proceeds from disposal of property and equipment of RMB163.1 million.

Net cash provided by investing activities was RMB3,382.1 million in 2019, primarily attributable to (i) proceeds from sale of short-term investments of RMB7,246.5 million, and (ii) proceeds from disposal of equity investees of RMB76.7 million, partially offset by (i) purchases of short-term investments of RMB2,202.8 million, and (ii) purchase of property, plant and equipment and intangible assets of RMB1,706.8 million.

Net cash used in investing activities was RMB7,940.8 million in 2018, primarily attributable to (i) purchases of short-term investments of RMB8,090.7 million, (ii) purchases of property, plant and equipment and intangible assets of RMB2,644.0 million and (iii) acquisition of equity investees of RMB110.9 million, partially offset by the proceeds from sale of short-term investments of RMB2,936.0 million.

Financing Activities

Net cash provided by financing activities was RMB7,528.4 million (US$1,168.4 million) in the nine months ended September 30, 2021, primarily attributable to (i) proceeds from issuance of convertible promissory note of RMB9,560.8 million (US$1,483.8 million), (ii) proceeds from borrowings of RMB4,380.0 million (US$679.8 million), (iii) net proceeds from issuance of ordinary shares of RMB602.8 million (US$93.6 million), and (iv) proceeds from exercise of stock options of RMB123.3 million (US$19.1 million), partially offset by (i) redemption of redeemable non-controlling interests of RMB6,000.0 million (US$931.2 million), (ii) repayments of borrowings-third party of RMB1,212.3 million (US$188.1 million), and (iii) principal payments on finance lease of RMB25.2 million (US$3.9 million).

Net cash provided by financing activities was RMB41.4 billion in 2020, primarily attributable to (i) proceeds from issuance of ordinary shares, net of RMB34,607.1 million, (ii) capital injection from redeemable non-controlling interests holders of RMB5,000.0 million, (iii) proceeds from issuance of convertible promissory note-third parties of RMB3,014.6 million, (iv) proceeds from issuance of convertible promissory note-related parties of RMB90.5 million, (v) proceeds from borrowings from third parties of RMB1,605.5 million, and (vi) proceeds from borrowings from related parties of RMB260.0 million, partially offset by (i) repurchase of redeemable non-controlling interests of RMB2,071.5 million, (ii) repayments of borrowings from third parties of RMB964.8 million, and (iii) repayments of borrowings from related parties of RMB285.8 million.

Net cash provided by financing activities was RMB3,095.0 million in 2019, primarily attributable to (i) proceeds from issuance of convertible promissory note-third parties of RMB2,802.0 million, (ii) proceeds from issuance of convertible promissory note-related parties of RMB1,520.4 million, (iii) the proceeds from borrowings from third parties of RMB1,350.8 million, and (iv) the proceeds from borrowings from related parties of RMB25.8 million, partially offset by repayments of borrowings of RMB2,611.0 million.

Net cash provided by financing activities was RMB11,603.1 million in 2018, primarily attributable to (i) the proceeds from the issuance of ordinary shares in our initial public offering of RMB7,531.0 million; (ii) the proceeds from the issuance of redeemable non-controlling interests of RMB1,265.9 million in connection with the issuance by a wholly-owned subsidiary of us of redeemable preferred shares to certain third party strategic investors and (iii) the proceeds from borrowings from third parties of RMB2,668.5 million.

Capital Expenditures

In 2018, 2019, 2020 and for the nine months ended September 30, 2021, our capital expenditures were mainly used for the acquisition of property, plant and equipment and intangible assets which consisted primarily of mold and tooling, IT equipment, research and development equipment, leasehold improvements, consisting primarily of office space, NIO Houses and laboratory improvements as well as the roll-out of our power solutions, and equity investments. We made capital expenditures of RMB2,754.9 million, RMB1,738.3 million and RMB1,378.5 million in 2018, 2019 and 2020, respectively. We made capital expenditures of RMB1,209.9 million, and RMB3,338.6 million (US$518.2 million) in the nine months ended September 30, 2020 and 2021, respectively. We expect our capital expenditures to continue to be significant in the foreseeable future as we expand our business, and that our level of capital expenditures will be significantly affected by user demand for our products and services. The fact that we have a limited operating history means we have limited historical data on the demand for our products and services. As a result, our future capital requirements may be uncertain and actual capital requirements may be different from those we currently anticipate. To the extent the proceeds of securities we have issued and cash flows from our business activities are insufficient to fund future capital requirements, we may need to seek equity or debt financing. We will continue to make capital expenditures to support the expected growth of our business.

HOLDING COMPANY STRUCTURE

NIO Inc. is a holding company with no material operations of its own. We conduct a portion of our operations through our PRC subsidiaries, and, to a lesser extent, our variable interest entity and its subsidiaries in China. As a result, our ability to pay dividends depends significantly upon dividends paid by our PRC subsidiaries. If our existing PRC subsidiaries or any newly formed ones incur debt on their own behalf in the future, the instruments governing their debt may restrict their ability to pay dividends to us. In addition, our wholly foreign-owned subsidiaries in China are permitted to pay dividends to us only out of their retained earnings, if any, as determined in accordance with PRC accounting standards and regulations. Under PRC law, each of our subsidiaries and our variable interest entity and its subsidiaries in China is required to set aside at least 10% of its after-tax profits each year, if any, to fund certain statutory reserve funds until such reserve funds reach 50% of its registered capital. In addition, each of our wholly foreign-owned subsidiaries in China may allocate a portion of its after-tax profits based on PRC accounting standards to enterprise expansion funds, staff bonuses and welfare funds at its discretion, and our variable interest entity may allocate a portion of its after-tax profits based on PRC accounting standards to a discretionary surplus fund at its discretion. The statutory reserve funds and the discretionary funds are not distributable as cash dividends. Remittance of dividends by a wholly foreign-owned company out of China is subject to examination by the banks designated by the SAFE. Our PRC subsidiaries have not paid dividends and will not be able to pay dividends until they generate accumulated profits and meet the requirements for statutory reserve funds. Our VIEs that existed as of September 30, 2021 did not have any material assets or liabilities as of September 30, 2021. In the future we expect Beijing NIO to focus on value-added telecommunications services, including, without limitation, performing internet services, operating our website and our mobile application as well as holding certain related licenses.

OFF-BALANCE SHEET ARRANGEMENTS

Other than the guarantees provided to Battery Asset Company in relation to the BaaS model as described in Note 2(s) to the Accountant's Report set out in Appendix I, we have not entered into any off-balance sheet financial guarantees or other off-balance sheet commitments to guarantee the payment obligations of any third parties. We have not entered into any derivative contracts that are indexed to our shares and classified as shareholder's equity or that are not reflected in our consolidated financial statements. Furthermore, we do not have any retained or contingent interest in assets transferred to an 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 product development services with us.

CONTRACTUAL OBLIGATIONS

The following table sets forth our contractual obligations as of November 30, 2021:

	Payment due by period				
	Total	**Less than 1 year**	**1-3 years**	**3-5 years**	**More than 5 years**
	(in RMB thousands)				
Capital commitments	3,115,824	2,502,222	591,375	15,522	6,705
Operating lease obligations	3,666,245	1,026,275	1,247,761	595,003	797,206
Finance lease obligations	66,040	31,531	34,360	149	–
Short-term and long-term borrowings	6,170,060	6,124,480	45,580	–	–
Interest on bank borrowings	118,797	117,343	1,454	–	–
Convertible notes with principal and interest	10,965,621	1,288,868	47,846	4,832,396	4,796,511
Asset-backed securities	837,639	485,226	352,413	–	–
Total	**24,940,226**	**11,575,945**	**2,320,789**	**5,443,070**	**5,600,422**

Capital commitments are commitments in relation to the purchase of property and equipment including leasehold improvements. Operating lease obligations consist of leases in relation to certain offices and buildings, NIO Houses and other property for our sales and after-sales network.

Other than those shown above, we did not have any significant capital and other commitments, long-term obligations, mortgages and charges, or guarantees as of November 30, 2021.

As of September 30, 2021 and the Latest Practicable Date, for the purpose of indebtedness, save as disclosed in the Accountant's Report in Appendix I to this document, we did not have significant contingent liabilities.

As of September 30, 2021 and November 30, 2021, save as disclosed in this section, we did not have any significant bank overdrafts, loans and other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges hire purchase commitments or other outstanding material contingent liabilities.

DIVIDEND POLICY

The payment of dividends is at the discretion of our board of directors, subject to our twelfth amended and restated memorandum and articles of association. In addition, our shareholders may by ordinary resolution declare a dividend, but no dividend may exceed the amount recommended by our board of directors. In either case, all dividends are subject to certain restrictions under Cayman Islands law, namely that our company may only pay dividends out of profits or the share premium account, and provided that in no circumstances may a dividend be paid if this would result in our company being unable to pay its debts as they fall due in the ordinary course of business. Even if we decide to pay dividends, the form, frequency and amount will depend upon our future operations and earnings, capital requirements and surplus, general financial condition, contractual restrictions and other factors that the board of directors may deem relevant.

We do not 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.

We are a holding company incorporated in the Cayman Islands. We may rely on dividends paid by our subsidiaries in China for our cash requirements, including any payment of dividends to our shareholders. PRC regulations may restrict the ability of our PRC subsidiaries to pay dividends to us. See "Risk Factors — Risks Related to Doing Business in China — We may rely on dividends and other distributions on equity paid by our PRC subsidiaries to fund any cash and financing requirements we may have, and any limitation on the ability of our PRC subsidiaries to make payments to us could have a material and adverse effect on our ability to conduct our business."

If we pay any dividends on our ordinary shares, we will pay those dividends which are payable in respect of the ordinary shares underlying our ADSs to the depositary, as the registered holder of such ordinary shares, and the depositary then will pay such amounts to our ADS holders in proportion to the ordinary shares underlying the ADSs held by such ADS holders, subject to the terms of the deposit agreements, including the fees and expenses payable thereunder. Cash dividends on our ordinary shares, if any, will be paid in U.S. dollars.

NO MATERIAL ADVERSE CHANGE

After due and careful consideration, our directors confirm that, up to the date of and save as disclosed in this document, there has not been any material adverse change in our financial or trading position or prospects since September 30, 2021, and there is no event since September 30, 2021 which would materially affect the information shown in the Accountant's Report in Appendix I to this document.

LISTING EXPENSES

We expect to incur listing expenses of approximately RMB58.3 million, comprising (1) fees and expenses of legal advisers and accountants of approximately RMB36.2 million and (2) other fees and expenses of approximately RMB22.1 million. Listing expenses are recognised in our consolidated statement of comprehensive loss as and when they are incurred.

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 to illustrate the effect of the Listing on our consolidated net tangible assets attributable to our ordinary shareholders as of September 30, 2021 as if the Listing had taken place on that date.

The unaudited pro forma adjusted net tangible assets have been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of our consolidated net tangible assets had the Listing been completed as of September 30, 2021 or at any future dates. It is prepared based on our unaudited consolidated net tangible assets attributable to ordinary shareholder as of September 30, 2021 as derived from the Accountant's Report, the text of which is set out in Appendix I to this document, and adjusted as described below.

	Audited consolidated net tangible assets attributable to ordinary shareholders of the Company as at September 30, 2021	Estimated listing expenses	Unaudited pro forma adjusted net tangible assets attributable to ordinary shareholders of the Company as at September 30, 2021	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
	(RMB'000)	(RMB'000)	(RMB'000)	RMB	RMB	HK$	HK$
	(Note 1)	(Note 2)		(Note 3)	(Note 4)	(Note 5)	(Note 5)
Based on 1,590,573,377 Shares in issue immediately prior to the Listing	24,419,303	(58,278)	24,361,025	15.32	15.32	18.51	18.51

Notes:

(1) The audited consolidated net tangible assets attributable to ordinary shareholders of the Company as at September 30, 2021 is extracted from the Accountant's Report set out in Appendix I to this document, which is based on the audited consolidated net assets attributable to ordinary shareholders of the Company as of September 30, 2021 of approximately RMB24,419,306,000 as set out in Appendix I with an adjustment for the intangible assets attributable to the ordinary shareholders of the Company of approximately RMB3,000.

(2) In relation to the Listing, the Company expects to incur listing expenses in an aggregate amount of approximately RMB58.3 million which mainly include professional fees to the Joint Sponsors, legal advisers, the legal advisers to the Joint Sponsors and the Reporting Accountant.

(3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that 1,590,573,377 ordinary shares were in issue immediately prior to the Listing, assuming that the Listing has been completed on September 30, 2021 and the completion of conversion of all of the Class B ordinary shares into Class A ordinary shares, without taking into account of 18,482,691 treasury shares held by the Company, 59,950,066 Class A ordinary shares issued after September 30, 2021 and the Shares to be issued pursuant to the Stock Incentive Plans including pursuant to the exercise of options or the vesting of restricted shares or other awards that have been or may be granted from time to time, and any issuance or repurchase and cancellation of Shares and/or ADSs by the Company.

(4) The unaudited pro forma adjusted net tangible assets per ADS is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that one ADS represent one Share.

(5) For the purpose of this pro forma adjusted net tangible assets, the balances stated in Renminbi are converted into Hong Kong dollars at a rate of RMB0.8277 to HK$1.00.

(6) Save as disclosed above, no other adjustment has been made to the pro forma adjusted net tangible assets of the Company to reflect any trading results or other transactions of the Company entered into subsequent to September 30, 2021.