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

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

[●]

The Directors
Baidu, Inc.

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

Dear Sirs,

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

Directors' responsibility for the Historical Financial Information

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

Reporting accountants' responsibility

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

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

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

Opinion

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

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

Adjustments

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

Dividends

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

No historical financial statements for the Company

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

Certified Public Accountants
Hong Kong

I HISTORICAL FINANCIAL INFORMATION

Preparation of Historical Financial Information

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

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

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

BAIDU, INC.

CONSOLIDATED BALANCE SHEETS

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

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

BAIDU, INC.

CONSOLIDATED BALANCE SHEETS—continued

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

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

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

BAIDU, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

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

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

BAIDU, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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

BAIDU, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS—continued

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

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

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

BAIDU, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

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

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

BAIDU, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY—continued

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION

1. ORGANIZATION

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

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

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

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

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

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

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

Loan Agreements

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

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

Exclusive Equity Purchase and Transfer Option Agreement

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

Exclusive Equity Purchase and Transfer Option Agreement—continued

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

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

Commitment Letters

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

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

Proxy Agreement/Power of Attorney

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

Operating Agreement

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

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

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

Exclusive Technology Consulting and Services Agreement

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

License Agreements

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

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

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

Business Cooperation Agreement

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

Equity Pledge Agreement

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

Equity Pledge Agreement—continued

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

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

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

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

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

(a) Exclusive equity purchase and transfer option agreement

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

Equity Pledge Agreement—continued

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

(b) Proxy Agreements/Power of Attorney

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

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

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

Equity Pledge Agreement—continued

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

1. ORGANIZATION—continued

Equity Pledge Agreement—continued

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation and Principles of Consolidation

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

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

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

(b) Recently adopted accounting pronouncements

Adoption of ASU 2016-13

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(b) Recently adopted accounting pronouncements—continued

Adoption of ASU 2016-13—continued

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

Adoption of ASU 2017-04

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

Adoption of ASU 2019-02

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

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(c) Use of Estimates

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

(d) Foreign Currency

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

(e) Segment Reporting

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(f) Business Combinations

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

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

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

(g) Cash, Cash Equivalents and Restricted Cash

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

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

(h) Accounts Receivable and Contract Assets, net

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

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

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

(i) Receivables from Online Payment Agencies, net

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

(j) Investments

Short-term investments

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

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(j) Investments—continued

Short-term investments—continued

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

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

Long-term investments

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(j) Investments—continued

Long-term investments—continued

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

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(j) Investments—continued

Long-term investments—continued

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

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

(k) Fair Value Measurements of Financial Instruments

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

(l) Fixed Assets

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

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(l) Fixed Assets—continued

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

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

(m) Licensed Copyrights, net

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

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

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

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

(n) Produced Content, net

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(n) Produced Content, net—continued

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

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

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

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

(p) Impairment of licensed copyrights and produced content

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

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

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

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

(q) Impact of COVID-19

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(r) Goodwill and Intangible Assets

Goodwill

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

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

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(r) Goodwill and Intangible Assets—continued

Intangible assets

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

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

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

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

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

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

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

(t) Leases

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(t) Leases—continued

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

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

(u) Revenue Recognition

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(u) Revenue Recognition—continued

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

Performance-based online marketing services

Cost-per-click ("CPC")

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

Other performance-based online marketing services

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

Online display advertising services

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

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

Baidu Union online marketing services

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(u) Revenue Recognition—continued

Baidu Union online marketing services—continued

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

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

Collection

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

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

Sales incentives

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(u) Revenue Recognition—continued

Membership services

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

Content distribution

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(u) Revenue Recognition—continued

Content distribution—continued

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

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

Cloud Services

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

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

Sales of hardware

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

Financial services

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(u) Revenue Recognition—continued

Other revenue recognition related policies

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

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

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

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

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

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

(v) Cost of Revenues

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(w) Advertising and Promotional Expenses

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

(x) Research and development expenses

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

(y) Government Subsidies

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

(z) Income Taxes

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(z) Income Taxes—continued

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

(aa) Share-based Compensation

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

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

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

(bb) Earnings Per Share ("EPS")

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

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

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

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

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

(cc) Contingencies

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(dd) Concentration of Risks

Concentration of credit risk

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

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

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

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

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

Business and economic risks

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(dd) Concentration of Risks—continued

Business and economic risks—continued

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

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

Currency convertibility risk

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

Foreign currency exchange rate risk

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

(ee) Derivative Instruments

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—continued

(ff) Recent Accounting Pronouncements

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

3. BUSINESS COMBINATIONS

Business combinations in 2018:

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

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

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

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

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

Business combinations in 2019:

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

3. BUSINESS COMBINATIONS—continued

Business combinations in 2019—continued:

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

Business combinations in 2020:

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

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

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

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS

Short-term Investments

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

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

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

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

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

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

Long-term Investments

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS—continued

Long-term Investments—continued

Equity investments at fair value with readily determinable fair value

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

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

Equity investments without readily determinable fair value

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS—continued

Long-term Investments—continued

Equity investments without readily determinable fair value—continued

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

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

Note:

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

Equity method investments

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

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

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

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

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS—continued

Long-term Investments—continued

Equity method investments—continued

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

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

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

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

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

Notes:

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

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

Disposal of financial services business

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS—continued

Long-term Investments—continued

Equity method investments—continued

Disposal of financial services business—continued

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

Deconsolidation of one of the Company's subsidiaries

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

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

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

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

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

Note:

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS—continued

Long-term Investments—continued

Investments accounted for at fair value

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

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

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

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

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

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

Long-term held-to-maturity investments

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS—continued

Long-term Investments—continued

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

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

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

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

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

4. INVESTMENTS—continued

Long-term Investments—continued

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

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

5. LICENSED COPYRIGHTS, NET

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

5. LICENSED COPYRIGHTS, NET—continued

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

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

5. LICENSED COPYRIGHTS, NET—continued

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

6. PRODUCED CONTENT, NET

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

6. PRODUCED CONTENT, NET—continued

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

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

7. ACCOUNTS RECEIVABLE

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

8. OTHER ASSETS

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

Note:

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

9. FIXED ASSETS

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

10. GOODWILL AND INTANGIBLE ASSETS

Goodwill

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

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

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

Note:

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

Intangible Assets

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

10. GOODWILL AND INTANGIBLE ASSETS—continued

Intangible Assets—continued

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

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

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

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

11. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

12. LOANS PAYABLE

Short-term Loans

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

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

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

Structured payable arrangements

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

12. LOANS PAYABLE—continued

Structured payable arrangements—continued

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

Long-term Loans

Baidu

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

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

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

iQIYI

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

12. LOANS PAYABLE—continued

Long-term Loans—continued

iQIYI—continued

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

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

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

12. LOANS PAYABLE—continued

Long-term Loans—continued

iQIYI—continued

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

13. NOTES PAYABLE

Baidu, Inc.

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

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

Note:

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

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

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

13. NOTES PAYABLE—continued

Baidu, Inc.—continued

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

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

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

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

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

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

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

13. NOTES PAYABLE—continued

Baidu, Inc.—continued

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

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

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

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

14. CONVERTIBLE NOTES

iQIYI 2023 Convertible Notes

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

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

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

14. CONVERTIBLE NOTES—continued

iQIYI 2023 Convertible Notes—continued

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

iQIYI 2025 Convertible Notes

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

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

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

iQIYI 2026 Convertible Notes

In December 2020, iQIYI issued US$800 million convertible senior notes (" iQIYI 2026 Convertible Notes"). The iQIYI 2026 Convertible Notes are senior, unsecured obligations of iQIYI, and interest is payable semi-annually in cash at a rate of 4.00% per annum with a maturity date of December 15, 2026, unless redeemed, repurchased or converted prior to such date. The initial conversion rate of

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

14. CONVERTIBLE NOTES—continued

iQIYI 2026 Convertible Notes—continued

iQIYI 2026 Convertible Notes is 44.8179 of iQIYI's ADSs per US$1,000 principal amount of the iQIYI 2026 Convertible Notes. Upon conversion, iQIYI will pay or deliver to such converting holders, as the case may be, cash, ADSs, or a combination of cash and ADSs, at its election.

The accounting of iQIYI 2026 Convertible Notes is similar to that of iQIYI 2023 Convertible Notes. The difference between the principal amount of the iQIYI 2026 Convertible Notes and the liability component was considered debt discount and amortized at an effective interest rate of 6.94% to accrete the discounted carrying value of the iQIYI 2026 Convertible Notes to its face value on August 1, 2024, the put date of the iQIYI 2026 Convertible Notes. The holders may require iQIYI to repurchase all or portion of the iQIYI 2026 Convertible Notes for cash on August 1, 2024, or upon a fundamental change, at a repurchase price equal to 100% of the principal amount, plus accrued and unpaid interest.

The iQIYI 2023 Convertible Notes, the iQIYI 2025 Convertible Notes and the iQIYI 2026 Convertible Notes are collectively referred to the Convertible Notes.

The carrying amount of the Convertible Notes as of December 31, 2018, 2019 and 2020 were as follows:

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Liability component:			
Principal	5,158	13,578	17,954
Less: unamortized debt discount	446	1,281	1,275
Net carrying amount	4,712	12,297	16,679
Equity component:			
Carrying amount	362	1,349	1,744

For the years ended December 31, 2018, 2019 and 2020, the amount of interest cost recognized relating to both the contractual interest coupon and amortization of the discount on the liability component were RMB24 million, RMB670 million and RMB799 million, respectively. As of December 31, 2020, the liability component of the iQIYI 2023 Convertible Notes, the iQIYI 2025 Convertible Notes and the iQIYI 2026 Convertible Notes would be accreted up to the principal amount of US$750 million, US$1.2 billion and US$800 million over a remaining period of 0.92 years 2.25 years and 3.59 years, respectively. The amount repayable within the next twelve months are classified as "Convertible senior notes, current portion" in the consolidated balance sheets.

The aggregate scheduled maturities of RMB4.9 billion, RMB7.8 billion and RMB5.2 billion of the Convertible Notes will be repaid when they become due in 2023, 2025 and 2026, respectively, assuming there is no conversion of the Convertible Notes, no redemption of the Convertible Notes prior to their maturities and the convertible senior notes bondholders hold the Convertible Notes until their maturities and iQIYI elects to fully settle the Convertible Notes in cash.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

15. LEASES

The Company's operating leases mainly related to land, office facilities, IDC facilities and vehicles. For leases with terms greater than 12 months, the Company records the related asset and lease liability at the present value of lease payments over the term. Certain leases include rental escalation clauses, renewal options and/or termination options that are factored into the Company's determination of lease payments when appropriate. As of December 31, 2019 and 2020, finance leases were insignificant.

As of December 31, 2020, the weighted average remaining lease term was 16.2 years and weighted average discount rate was 4.53% for the Group's operating leases.

Operating lease cost was RMB2.7 billion and RMB3.0 billion for the years ended December 31, 2019 and 2020, respectively, which excluded cost of short-term contracts. Short-term lease cost was RMB434 million and RMB427 million for the years ended December 31, 2019 and 2020, respectively. Variable lease cost was immaterial for the years ended December 31, 2019 and 2020. For the year ended December 31, 2019 and 2020, no lease cost for operating or finance leases was capitalized.

Supplemental cash flow information related to operating leases was as follows:

	For the years ended December 31,	
	2019	2020
	RMB	RMB
	(In millions)	
Cash payments for operating leases	2,631	5,187
ROU assets obtained in exchange for operating lease liabilities	3,896	2,841

Future lease payments under operating leases as of December 31, 2020 were as follows:

	Operating leases
	RMB (In millions)
Year ending December 31,	
2021	2,430
2022	1,856
2023	1,433
2024	1,032
2025	464
Thereafter	624
Total future lease payments	7,839
Less: Imputed interest	780
Total lease liability balance	7,059

As of December 31, 2020, additional operating leases that have not yet commenced were immaterial.

16. INCOME TAXES

Cayman Islands and BVI

Under the current laws of the Cayman Islands and BVI, the Company is not subject to tax on income or capital gains. Additionally, upon payment of dividends by the Company to its shareholders, no Cayman Islands withholding tax will be imposed.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

16. INCOME TAXES—continued

Hong Kong

Subsidiaries in Hong Kong are subject to Hong Kong Profits Tax rate at 16.5%, and foreign-derived income is exempted from income tax. There are no withholding taxes in Hong Kong on remittance of dividends.

Japan

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

China

Under the PRC Enterprise Income Tax ("EIT") Law, which has been effective since January 1, 2008, domestic enterprises and Foreign Investment Enterprises (the "FIE") are subject to a unified 25% enterprise income tax rate, except for certain entities that are entitled to preferential tax treatments. Preferential EIT rates at 15% and 10% are available for qualified "High and New Technology Enterprises" ("HNTEs") and "Key Software Enterprise" ("KSE"), respectively. The HNTE certificate is effective for a period of three years and the KSE is subject to relevant governmental authorities' annual assessment based on self-assessment supporting documents filed with the tax authorities each year.

Baidu Online, Baidu China and Baidu International enjoyed a reduced tax rate of 10% as qualified KSEs in 2018 and 2019. Certain other PRC subsidiaries and VIEs, including Baidu Netcom, are qualified HNTEs and enjoy a reduced tax rate of 15% for the years presented, which will expire in 2022 and 2023. Certain entities must file required supporting documents with the tax authorities before using the preferential rates. Whether the entity is entitled to enjoy a preferential rate as a KSE is subject to relevant governmental authorities' assessment each year. An entity could re-apply for the HNTE certificate when the prior certificate expires. Historically, all of the Company's subsidiaries and VIEs successfully re-applied for the certificates when the prior ones expired.

A certificate for the current year might be obtained in the following year as a result of the stringent inspection and approval process by the governmental authorities. The Company would record an income tax reversal in the year when the certificate is obtained for the over-paid or over-accrued provisional tax in connection with the grant of a more favorable tax rate for the prior year.

Under the current EIT Law, dividends for earnings derived from January 1, 2008 and onwards paid by PRC entities to any of their foreign non-resident enterprise investors are subject to a 10% withholding tax. A lower tax rate will be applied if tax treaty or arrangement benefits are available. Under the tax arrangement between the PRC and Hong Kong, the reduced withholding tax rate for dividends paid by PRC entities is 5% provided the Hong Kong investors meet the requirements as stipulated by relevant PRC tax regulations, such as the beneficiary owner test. Capital gains derived from PRC are also subject to a 10% PRC withholding tax.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

16. INCOME TAXES—continued

China—continued

Income (loss) before income taxes consists of:

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
PRC	23,524	13,076	19,711
Non-PRC	3,801	(13,416)	3,379
	27,325	(340)	23,090

Except for the investment related gain recognized, the pre-tax losses from non-PRC operations consist primarily of operating costs, administration expenses, interest expenses and share-based compensation expenses.

Income taxes consist of:

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Current income tax	6,184	3,564	4,668
Income tax refund due to reduced tax rate	(680)	(920)	(719)
Adjustments of deferred tax assets due to change in tax rates	—	9	(5)
Deferred income tax (benefit) expense	(761)	(705)	120
	4,743	1,948	4,064

The reconciliation of the actual income taxes to the amount of tax computed by applying the aforementioned statutory income tax rate to pre-tax income is as follows:

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions, except for per share data)	RMB
Expected taxation at PRC statutory tax rate	6,831	(85)	5,773
Effect of differing tax rates in different jurisdictions	493	3,299	208
Non-taxable income	(1,555)	(419)	(995)
Non-deductible expenses	935	2,124	3,416
Research and development super-deduction	(1,047)	(1,245)	(1,549)
Effect of PRC preferential tax rates and tax holiday	(2,250)	(1,327)	(2,891)
Effect of tax rate changes on deferred taxes	—	9	(5)
Reversal of prior year's EIT	(616)	(1,134)	(951)
PRC withholding tax	553	(224)	122
Addition to valuation allowance	1,399	950	936
Taxation for the year	4,743	1,948	4,064
Effective tax rate	17%	(573%)	18%
Effect of preferential tax rates inside the PRC on basic earnings per Class A and Class B ordinary share *(Note)*	0.81	0.49	1.06

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

16. INCOME TAXES—continued

China—continued

Note: Effect of preferential tax rates inside the PRC on basic earnings per Class A and Class B ordinary share for the years ended December 31, 2018, 2019 and 2020 have been retrospectively adjusted for the Share Subdivision that became effective on March 1, 2021, as detailed in Note 2.(a) and Note 21.

The tax effects of temporary differences that gave rise to the deferred tax balances at December 31, 2018, 2019 and 2020 are as follows:

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	2020
Deferred tax assets:			
Allowance for credit loss	252	332	452
Accrued expenses, payroll and others	4,284	4,820	5,456
Fixed assets depreciation	60	151	106
Net operating loss carry-forward	1,609	1,733	1,811
Less: valuation allowance	(3,881)	(4,843)	(5,895)
Deferred tax assets, net	2,324	2,193	1,930

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Deferred tax liabilities:			
Long-lived assets arising from acquisitions	360	275	406
Withholding tax on PRC subsidiaries' undistributed earnings	619	1,621	1,381
Tax on capital gains	2,778	1,159	943
Other	342	218	593
	4,099	3,273	3,323

The Group offset deferred tax liabilities and assets pertaining to a particular tax-paying component of the Group within a particular jurisdiction. The total income tax expenses were RMB4,743 million, RMB1,948 million and RMB4,064 million for the the years ended December 31, 2018, 2019 and 2020, respectively. The change in income tax expense is mainly due to changes of overall profits before tax. The effective tax rate for the the year ended December 31, 2020 is lower than the PRC statutory EIT rate of 25% mainly due to international income tax rate and preferential income tax rate impact, research and development super-deduction, and change in withhold rate and Key Software Enterprise status obtained.

As of December 31, 2020, the Company had tax losses of approximately RMB9.7 billion deriving from entities in the PRC, Hong Kong and Japan. The tax losses in Japan can be carried forward for nine years to offset future taxable profit. The tax losses in PRC can be carried forward for five years to offset future taxable profit, and the period was extended to 10 years for entities qualified as HNTE in 2019 and thereafter. The tax losses of entities in the PRC and Japan will expire from 2021 to 2030, if not utilized. The tax losses in Hong Kong can be carried forward with no expiration date.

The Company evaluated its income tax uncertainty under ASC 740. ASC 740 clarifies the accounting for uncertainty in income taxes by prescribing the recognition threshold a tax position is required to

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

16. INCOME TAXES—continued

China—continued

meet before being recognized in the financial statements. The Company elects to classify interest and penalties related to an uncertain tax position, if and when required, as part of income tax expense in the consolidated statements of comprehensive income (loss). The Company does not expect the amount of unrecognized tax benefits to increase significantly in the next 12 months. In general, the PRC tax authorities have up to five years to conduct examinations of the tax filings of the Company's PRC subsidiaries. Accordingly, the PRC subsidiaries' tax years of 2015 – 2020 remain open to examination by the respective tax authorities. The Company may also be subject to the examination of the tax filings in other jurisdictions, which are not material to the consolidated financial statements.

As of December 31, 2020, dividend distribution withholding tax for the potential remittance of earnings from the PRC subsidiaries to offshore entities was RMB1.4 billion. The Company believes that the underlying dividends will be distributed in the future for offshore use, such as merger and acquisition activities. The Company did not provide for additional deferred income taxes and foreign withholding taxes on the undistributed earnings of foreign subsidiaries during the years presented on the basis of its intent to permanently reinvest its foreign subsidiaries' earnings. As of December 31, 2020, the total amount of undistributed earnings from the PRC subsidiaries and the VIEs for which no withholding tax has been accrued was RMB154.1 billion. Determination of the amount of unrecognized deferred tax liability related to these earnings is not practicable. Under the PRC tax regulations, dividends from PRC companies to their overseas parents in respect of earnings derived from January 1, 2008 onwards are subject to PRC dividend withholding tax at 10%. Such rate could be reduced to 5% should tax treaty benefits be applicable.

17. EMPLOYEE DEFINED CONTRIBUTION PLAN

Full time employees of the Group in the PRC participate in a government mandated multi-employer defined contribution plan pursuant to which certain pension benefits, medical care, unemployment insurance, employee housing fund and other welfare benefits are provided to employees. Chinese labor regulations require that the Group make contributions to the government for these benefits based on certain percentages of the employees' salaries. The Group has no legal obligation for the benefits beyond the contributions. Total amounts for such employee benefits, which were expensed as incurred, were RMB2.9 billion, RMB3.2 billion and RMB2.7 billion for the years ended December 31, 2018, 2019 and 2020, respectively.

18. COMMITMENTS AND CONTINGENCIES

Capital Commitments

The Group's capital commitments primarily relate to commitments in connection with the expansion and improvement of its network infrastructure and its plan to build additional office buildings and cloud computing based data centers. Total capital commitments contracted but not yet reflected in the financial statements amounted to RMB754 million as of December 31, 2020. Almost all of the commitments relating to the network infrastructure, office building and cloud computing based data centers are to be fulfilled within one year.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

18. COMMITMENTS AND CONTINGENCIES—continued

Commitments for bandwidth and property management fees

Future minimum payments under non-cancelable agreements for bandwidth and property management fees consist of the following as of December 31, 2020:

	RMB (In millions)
2021	742
2022	323
2023	135
2024	81
2025	45
Thereafter	47
	1,373

Future minimum lease payments for operating lease commitments as of December 31, 2020 are disclosed in Note 15.

Licensed Copyrights and Produced Content Commitments

Future minimum payments under non-cancelable agreements for licensed copyrights and produced content consist of the following as of December 31, 2020:

	RMB (In millions)
2021	10,480
2022	6,239
2023	3,421
2024	1,286
2025	345
Thereafter	—
	21,771

Investment Commitments

The Group's investment commitments primarily relate to capital contribution obligations under certain arrangements which do not have contractual maturity date. The total investment commitments contracted but not yet reflected in the consolidated financial statements amounted to RMB1.5 billion.

Guarantees

The Group accounts for guarantees in accordance with ASC Topic 460, *Guarantees* ("ASC 460"). Accordingly, the Company evaluates its guarantees if any to determine whether (a) the guarantee is specifically excluded from the scope of ASC 460, (b) the guarantee is subject to ASC 460 disclosure requirements only, but not subject to the initial recognition and measurement provisions, or (c) the guarantee is required to be recorded in the financial statements at fair value.

The corporate by-laws require that the Company indemnify its officers and directors, as well as those who act as directors and officers of other entities at the Company's request, against expenses,

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

18. COMMITMENTS AND CONTINGENCIES—continued

Guarantees—continued

judgments, fines, settlements and other amounts actually and reasonably incurred in connection with any proceedings arising out of their services to the Company. In addition, the Company entered into separate indemnification agreements with each director and each executive officer of the Company that provide for indemnification of these directors and officers under similar circumstances and under additional circumstances. The indemnification obligations are more fully described in the by-laws and the indemnification agreements. The Company purchases standard directors and officers insurance to cover claims or a portion of the claims made against its directors and officers. Since a maximum obligation is not explicitly stated in the Company's by-laws or in the indemnification agreements and will depend on the facts and circumstances that arise out of any future claims, the overall maximum amount of the obligations cannot be reasonably estimated.

Historically, the Company was not required to make payments related to these obligations, and the fair value for these obligations was nil on the consolidated balance sheets as of December 31, 2018, 2019 and 2020.

Litigation

The Group was involved in certain cases pending in various PRC, U.S. and Brazil courts and arbitration as of December 31, 2020. These cases include copyright infringement cases, unfair competition cases, and defamation cases, among others. Adverse results in these lawsuits may include awards of damages and may also result in, or even compel, a change in the Company's business practices, which could result in a loss of revenue or otherwise harm the business of the Company.

Starting in April 2020, the Group and certain of its officers were named as defendants in putative securities class actions filed in federal court. The case was purportedly brought on behalf of a class of persons who allegedly suffered damages as a result of alleged misstatements and omissions in the Group's public disclosure documents related to Baidu Feed, which they believe did not comply with "PRC laws and regulations in all material respects". In addition, the Group received a complaint alleging that between April 8, 2016 and August 13, 2020, the Group made material misrepresentations in disclosures filed with the SEC by misrepresenting the financial and business condition of iQIYI and failing to disclose that iQIYI had inadequate controls. Both of those cases remain in preliminary stage, the likelihood of any unfavorable outcome or the amount or range of any potential loss cannot be reasonably estimated at the issuance date of the consolidated financial statements. As a result, as of December 31, 2020, the Group did not record any liabilities for the loss contingencies pertaining to the cases described above.

For many proceedings, the Company is currently unable to estimate the reasonably possible loss or a range of reasonably possible losses as the proceedings are in the early stages, and/or there is a lack of clear or consistent interpretation of laws specific to the industry-specific complaints among different jurisdictions. As a result, there is considerable uncertainty regarding the timing or ultimate resolution of such matters, which includes eventual loss, fine, penalty or business impact, if any, and therefore, an estimate for the reasonably possible loss or a range of reasonably possible losses cannot be made. However, the Company believes that such matters, individually and in the aggregate, when finally resolved, are not reasonably likely to have a material adverse effect on the Company's consolidated results of operations, financial position and cash flows. With respect to the limited number of

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

18. COMMITMENTS AND CONTINGENCIES—continued

Litigation—continued

proceedings for which the Company was able to estimate the reasonably possible losses or the range of reasonably possible losses, such loss estimates were insignificant.

19. REDEEMABLE NONCONTROLLING INTERESTS

	2018	2019	2020
	RMB	RMB (In millions)	RMB
Balance as of January 1	11,022	716	1,109
Business combinations (Note 3)	698	182	—
Issuance of subsidiary shares	—	100	1,866
Accretion of redeemable noncontrolling interests	146	111	127
Conversion of iQIYI preferred shares recognized as redeemable noncontrolling interests to ordinary shares	(11,150)	—	—
Balance as of December 31	716	1,109	3,102

In October 2018, the Company acquired additional shares of a former equity method investee, resulting in the investee becoming a subsidiary of the Company. The subsidiary had issued 159,820,917 outstanding preferred shares to certain shareholders, which could be redeemed by such shareholders upon the occurrence of certain events that are not solely within the control of the subsidiary. Therefore, these preferred shares were accounted for as redeemable noncontrolling interests (Note 3).

In September 2020, the Company entered into definitive agreements to issue Series A preferred shares of the Group's smart living business, or Smart Living Group ("SLG"). SLG had issued 61,666,667 outstanding preferred shares to certain shareholders, which could be redeemed by such shareholders upon the occurrence of certain events that are not solely within the control of the subsidiary. Therefore, these preferred shares were accounted for as redeemable noncontrolling interests.

The Company accounts for the changes in accretion to the redemption value in accordance with ASC Topic 480, *Distinguishing Liabilities from Equity.* The Company elects to use the effective interest method to account for the changes of redemption value over the period from the date of issuance to the earliest redemption date of the noncontrolling interest.

20. SHAREHOLDERS' EQUITY

Ordinary Shares

The authorized share capital consisted of 69,632,000,000 ordinary shares (previously 870,400,000 ordinary shares before the Share Subdivision as detailed in Note 2.(a)) at a par value of US$0.000000625 per share (previously US$0.00005 per share before the Share Subdivision as detailed in Note 2.(a)), of which 66,000,000,000 shares were designated as Class A ordinary shares, 2,832,000,000 as Class B ordinary shares, and 800,000,000 shares designated as preferred shares (previously of which 825,000,000 shares were designated as Class A ordinary shares, 35,400,000 as Class B ordinary shares, and 10,000,000 shares designated as preferred shares before the Share Subdivision as detailed in Note 2.(a) Note 21). The rights of the holders of Class A and Class B ordinary shares are identical, except with respect to voting and conversion rights. Each share of Class A ordinary shares is entitled to one vote per share and is not convertible into Class B ordinary

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

20. SHAREHOLDERS' EQUITY—continued

Ordinary Shares—continued

shares under any circumstances. Each share of Class B ordinary shares is entitled to ten votes per share and is convertible into one Class A ordinary share at any time by the holder thereof. Upon any transfer of Class B ordinary shares by a holder thereof to any person or entity that is not an affiliate of such holder, such Class B ordinary shares would be automatically converted into an equal number of Class A ordinary shares. The number of Class B ordinary shares transferred to Class A ordinary shares was nil, nil and 4,200,000 in the years ended December 31, 2018, 2019 and 2020, respectively.

As of December 31, 2020, there were 2,107,228,720 and 571,900,320 Class A and Class B ordinary shares outstanding (previously 26,340,359 and 7,148,754 Class A and Class B ordinary shares before the Share Subdivision as detailed in Note 2.(a)), respectively. As of December 31, 2018, 2019 and 2020, there were no preferred shares issued and outstanding.

On June 27, 2018, the Company announced a share repurchase program under which the Company proposed to acquire up to an aggregate of US$1.0 billion of its ordinary shares over the next 12 months in the open market or through privately negotiated transactions, depending on market conditions and in accordance with applicable rules and regulations.

On May 16, 2019, the Company announced a share repurchase program under which the Company proposed to acquire up to an aggregate of US$1.0 billion of its ordinary shares, effective until July 1, 2020 in the open market or through privately negotiated transactions, depending on market conditions and in accordance with applicable rules and regulations.

On May 13, 2020, the Company announced a share repurchase program ("2020 share repurchase program") under which the Company proposed to acquire up to an aggregate of US$1.0 billion of its ordinary shares, effective until July 1, 2021 in the open market or through privately negotiated transactions, depending on market conditions and in accordance with applicable rules and regulations. In August 2020, the board of directors approved a change to the 2020 share repurchase program, increasing the repurchase authorization from US$1.0 billion to US$3.0 billion, and in December 2020, the repurchase authorization was further increased from US$3.0 billion to US$4.5 billion, which is effective through December 31, 2022.

The Company repurchased 16,573,200, 53,162,720 and 126,096,000 Class A ordinary shares (previously 207,165, 664,534 and 1,576,200 Class A ordinary shares before the Share Subdivision as detailed in Note 2.(a)) from the open market with an aggregate purchase price of RMB3.3 billion, RMB5.0 billion and RMB13.1 billion during the years ended December 31, 2018, 2019 and 2020. The repurchased shares were cancelled under Cayman Islands law upon repurchase and the difference between the par value and the repurchase price was debited to retained earnings.

Retained Earnings

In accordance with the Regulations on Enterprises with Foreign Investment of China and their articles of association, the Company's PRC subsidiaries, being foreign invested enterprises established in China, are required to make appropriations to certain statutory reserves, namely a general reserve fund, an enterprise expansion fund, a staff welfare fund and a bonus fund, all of which are appropriated from net profit as reported in their PRC statutory accounts. Each of the Company's PRC subsidiaries is

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

20. SHAREHOLDERS' EQUITY—continued

Retained Earnings—continued

required to allocate at least 10% of its after-tax profits to a general reserve fund until such fund has reached 50% of its respective registered capital. Appropriations to the enterprise expansion fund and staff welfare and bonus funds are at the discretion of the Company's subsidiaries.

In accordance with the China Company Laws, the Company's VIEs must make appropriations from their after-tax profits as reported in their PRC statutory accounts to non-distributable reserve funds, namely a statutory surplus fund, a statutory public welfare fund and a discretionary surplus fund. Each of the Company's VIEs is required to allocate at least 10% of its after-tax profits to the statutory surplus fund until such fund has reached 50% of its respective registered capital. Appropriations to the statutory public welfare fund and the discretionary surplus fund are made at the discretion of the Company's VIEs.

General reserve and statutory surplus funds are restricted to set-off against losses, expansion of production and operation and increasing registered capital of the respective company. Staff welfare and bonus fund and statutory public welfare funds are restricted to capital expenditures for the collective welfare of employees. The reserves are not allowed to be transferred to the Company in the form of cash dividends, loans or advances, nor are they allowed for distribution except under liquidation.

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
PRC statutory reserve funds	515	626	806
Unreserved retained earnings	128,731	125,642	134,478
Total retained earnings	129,246	126,268	135,284

Under PRC laws and regulations, there are restrictions on the Company's PRC subsidiaries and VIEs with respect to transferring certain of their net assets to the Company either in the form of dividends, loans, or advances. Amounts of net assets restricted include paid in capital and statutory reserve funds of the Company's PRC subsidiaries and the net assets of the VIEs in which the Company has no legal ownership, totaling RMB25.7 billion, RMB40.8 billion and RMB45.0 billion as of December 31, 2018, 2019 and 2020, respectively.

Furthermore, cash transfers from the Company's PRC subsidiaries to their parent companies outside of China are subject to PRC government control of currency conversion. Shortages in the availability of foreign currency may restrict the ability of the PRC subsidiaries and consolidated affiliated entities to remit sufficient foreign currency to pay dividends or other payments to the Company, or otherwise satisfy their foreign currency denominated obligations.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

20. SHAREHOLDERS' EQUITY—continued

Accumulated Other Comprehensive Income (Loss)

The changes in accumulated other comprehensive income (loss) by component, net of tax, were as follows:

	Foreign currency translation adjustment	Unrealized gains on available-for-sale investments	Total
	RMB	RMB (In millions)	RMB
Balance at December 31, 2017	**(888)**	**1,818**	**930**
Cumulative effect of accounting change*	—	(1,854)	(1,854)
Other comprehensive income before reclassification	114	4,117	4,231
Amounts reclassified from accumulated other comprehensive income	80	(2,171)	(2,091)
Net current-period other comprehensive income	194	92	286
Other comprehensive income attribute to noncontrolling interests and redeemable noncontrolling interests	(1,006)	—	(1,006)
Balance at December 31, 2018	**(1,700)**	**1,910**	**210**
Other comprehensive income before reclassification	207	1,981	2,188
Amounts reclassified from accumulated other comprehensive income	(989)	(2,689)	(3,678)
Net current-period other comprehensive loss	(782)	(708)	(1,490)
Other comprehensive loss attribute to noncontrolling interests and redeemable noncontrolling interests	(102)	(1)	(103)
Balance at December 31, 2019	**(2,584)**	**1,201**	**(1,383)**
Other comprehensive income before reclassification	1,936	380	2,316
Amounts reclassified from accumulated other comprehensive income	—	(541)	(541)
Net current-period other comprehensive income (loss)	1,936	(161)	1,775
Other comprehensive loss attribute to noncontrolling interests and redeemable noncontrolling interests	(192)	(1)	(193)
Balance at December 31, 2020	**(840)**	**1,039**	**199**

Note:

* Adjustment of net unrealized gains related to available-for-sale equity investments from accumulated other comprehensive income to opening retained earnings as a result of the adoption of ASU 2016-13 on January 1, 2018.

The amounts reclassified out of accumulated other comprehensive income represent realized foreign currency translation adjustments, which mainly arise from the disposal of partial interests in Trip and realized gains on the sales of available-for-sale investments, which were recorded in "Others, net" in the consolidated statements of comprehensive income (loss). The amounts reclassified were determined on the basis of specific identification. Losses on intracompany foreign currency transactions that are of a long-term-investment nature in the amount of nil, nil and RMB1.2 billion were included in the foreign currency translation adjustment for the years ended December 31, 2018, 2019 and 2020, respectively.

In October 2019, the Company completed a partial disposal of its investment in Trip and the corresponding accumulated other comprehensive income of RMB989 million was reclassified to

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

20. SHAREHOLDERS' EQUITY—continued

Accumulated Other Comprehensive Income (Loss)—continued

income and recorded as "Others, net" in the consolidated statement of comprehensive loss for the year ended December 31, 2019.

The following table sets forth the tax benefit (expense) allocated to each component of other comprehensive income (loss) for the years ended December 31, 2018, 2019 and 2020:

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Unrealized gains on available-for-sale investments			
Other comprehensive income before reclassification	(409)	(280)	(59)
Amounts reclassified from accumulated other comprehensive income	328	402	83
Net current-period other comprehensive income (loss)	(81)	122	24

21. EARNINGS PER SHARE ("EPS")

Following the Share Subdivision as detailed in Note 2.(a), each ordinary share was subdivided into eighty ordinary shares and each ADS represents eight Class A ordinary shares. The weighted average number of ordinary shares used for the calculation of basic and diluted earnings per share/ADS for the years ended December 31, 2018, 2019 and 2020 have been retrospectively adjusted.

A reconciliation of net income attributable to Baidu, Inc. in the consolidated statements of comprehensive income (loss) to the numerator for the computation of basic and diluted earnings per share for the years ended December 31, 2018, 2019 and 2020 is as follows:

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Net income attributable to Baidu, Inc.	27,573	2,057	22,472
Accretion of the redeemable noncontrolling interests	(130)	(77)	(88)
Numerator for basic EPS computation	27,443	1,980	22,384
Impact of subsidiaries' and investees' diluted earnings per share	—	(28)	—
Numerator for diluted EPS computation	27,443	1,952	22,384

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

21. EARNINGS PER SHARE ("EPS")—continued

The following table sets forth the computation of basic and diluted earnings per Class A and Class B ordinary share and basic and diluted earnings per ADS:

	For the years ended December 31,					
	2018		2019		2020	
	Class A RMB	Class B RMB	Class A RMB	Class B RMB	Class A RMB	Class B RMB
	(In millions, including number of shares and ADS, except for per share and per ADS data)					
Earnings per share—basic:						
Numerator						
Allocation of net income attributable to Baidu, Inc.	21,780	5,663	1,571	409	17,683	4,701
Denominator						
Weighted average ordinary shares outstanding *(Note)*	2,216	576	2,211	576	2,158	574
Denominator used for basic EPS *(Note)*	2,216	576	2,211	576	2,158	574
Earnings per share—basic *(Note)*	9.83	9.83	0.71	0.71	8.19	8.19
Earnings per share—diluted:						
Numerator						
Allocation of net income attributable to Baidu, Inc. for diluted computation	21,824	5,619	1,549	403	17,723	4,661
Reallocation of net income attributable to Baidu, Inc. as a result of conversion of Class B to Class A shares	5,619	—	403	—	4,661	—
Numerator for diluted EPS calculation	27,443	5,619	1,952	403	22,384	4,661
Denominator						
Weighted average ordinary shares outstanding *(Note)*	2,216	576	2,211	576	2,158	574
Conversion of Class B to Class A ordinary shares *(Note)*	576	—	576	—	574	—
Share-based awards *(Note)*	22	—	4	—	24	—
Denominator used for diluted EPS *(Note)*	2,814	576	2,791	576	2,756	574
Earnings per share—diluted *(Note)*	9.75	9.75	0.70	0.70	8.12	8.12
Earnings per ADS (1 ADS equals 8 Class A ordinary shares):						
Denominator used for earnings per ADS—basic *(Note)*	277		276		270	
Denominator used for earnings per ADS—diluted *(Note)*	352		349		344	
Earnings per ADS—basic *(Note)*	78.64		5.68		65.54	
Earnings per ADS—diluted *(Note)*	78.03		5.60		64.98	

Note: Basic and diluted net income per ordinary share, weighted average number of shares and the adjustments for dilutive restricted share and share options for the years ended December 31, 2018, 2019 and 2020 have been retrospectively adjusted for the Share Subdivision and the ADS Ratio Change that became effective on March 1, 2021, as detailed in Note 2.(a)

The Company did not include certain stock options, restricted shares and the effect of convertible senior notes issued by iQIYI in the computation of diluted earnings per share for the years ended December 31, 2018, 2019 and 2020 because those stock options, restricted shares and convertible senior notes were anti-dilutive for earnings per share for the respective years.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

22. SHARE-BASED AWARDS PLAN

Baidu, Inc.

2008 Share Incentive plan

In December 2008, the Company adopted a share incentive plan (the "2008 Plan"), which provides for the granting of share incentives, including incentive share options ("ISOs"), restricted shares and any other form of award pursuant to the 2008 Plan, to members of the board, employees, consultants and non-employees of the Company. The Company reserved 274,302,160 Class A ordinary shares (previously 3,428,777 Class A ordinary shares before the Share Subdivision as detailed in Note 2.(a)) for issuance under the 2008 Plan, which expired in the year 2018. The vesting schedule, time and condition to exercise options is determined by the Company's compensation committee. The term of the options may not exceed ten years from the date of the grant, except that five years is the maximum term of an ISO granted to an employee who holds more than 10% of the voting power of the Company's share capital.

Under the 2008 Plan, the exercise price of an option may be amended or adjusted at the discretion of the compensation committee, the determination of which would be final, binding and conclusive. To the extent not prohibited by applicable laws or exchange rules, a downward adjustment of the exercise prices would be effective without the approval of the Company's shareholders or the approval of the affected grantees. If the Company grants an ISO to an employee who, at the time of that grant, owns shares representing more than 10% of the voting power of all classes of the Company's share capital, the exercise price cannot be less than 110% of the fair market value of the Company's ordinary shares on the date of that grant.

2018 Share Incentive Plan

In July 2018, the Company adopted a share incentive plan (the "2018 Plan"), which provides for the granting of share incentives, including ISOs, restricted shares and any other form of award pursuant to the 2018 Plan, to members of the board, employees, consultants, and non-employees of the Company. The 2018 Plan has a ten-year term and a maximum number of 275,516,000 Class A ordinary shares (previously 3,443,950 Class A ordinary shares before the Share Subdivision as detailed in Note 2.(a)) available for issuance pursuant to all awards under the 2018 Plan.

Under the 2018 Plan, the exercise price of an option may be amended or adjusted at the discretion of the compensation committee, the determination of which would be final, binding and conclusive. To the extent not prohibited by applicable laws or exchange rules, a downward adjustment of the exercise prices would be effective without the approval of the Company's shareholders or the approval of the affected grantees. If the Company grants an ISO to an employee who, at the time of that grant, owns shares representing more than 10% of the voting power of all classes of the Company's share capital, the exercise price cannot be less than 110% of the fair market value of the Company's ordinary shares on the date of that grant.

Following the Share Subdivision that became effective on March 1, 2021 as detailed in Note 2.(a), each ordinary share was subdivided into eighty ordinary shares and each ADS represents eight ordinary shares. Prior and subsequent to March 1, 2021, one ordinary share was and will be issuable upon the vesting of one outstanding restricted share or the exercise of one outstanding share option, respectively. Therefore, following the Share Subdivision, each share option and restricted share is subdivided into eighty share options and eighty restricted shares, the weighted average grant date fair

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

22. SHARE-BASED AWARDS PLAN—continued

Baidu, Inc.—continued

2018 Share Incentive Plan—continued

value per restricted share and the weighted average exercise price per share option is diluted by eighty times. The number of restricted shares and share options, the weighted average grant date fair value per restricted share and the weighted average exercise price per share option has been retrospectively adjusted for the Share Subdivision in the following tables.

Incentive share options

The following table summarizes the option activity for the years ended December 31, 2018, 2019 and 2020:

	Number of share options *(Note)*	Weighted average exercise price (US$) *(Note)*	Weighted average remaining contractual life (Years)	Aggregate intrinsic value (US$ in millions)
Incentive share options				
Outstanding, December 31, 2017	25,231,760	22	8	186
Granted	6,812,720	22		
Exercised	(5,338,160)	20		
Forfeited/Cancelled	(8,651,600)	23		
Outstanding, December 31, 2018	18,054,720	22	7	40
Vested and expected to vest at December 31, 2018	15,344,880	21	7	38
Exercisable at December 31, 2018	**8,691,120**	**19**	**6**	**31**
Outstanding, December 31, 2018	18,054,720	22	7	40
Granted	18,492,160	12		
Exercised	(947,920)	3		
Forfeited/Cancelled	(5,744,480)	21		
Outstanding, December 31, 2019	29,854,480	17	8	72
Vested and expected to vest at December 31, 2019	23,836,480	17	8	53
Exercisable at December 31, 2019	**9,834,640**	**22**	**5**	**7**
Outstanding, December 31, 2019	29,854,480	17	8	72
Granted	1,028,240	11		
Exercised	(3,516,400)	13		
Forfeited/Cancelled	(3,147,280)	17		
Outstanding, December 31, 2020	24,219,040	17	7	245
Vested and expected to vest at December 31, 2020	19,756,080	18	7	186
Exercisable at December 31, 2020	**12,098,400**	**21**	**5**	**78**

Note: The number of share options and weighted average exercise price have been retrospectively adjusted for the Share Subdivision that became effective on March 1, 2021 as detailed in Note 2.(a) and Note 21.

The aggregate intrinsic value in the table above represents the difference between the Company's closing stock price on the last trading day in 2020 and the exercise price.

Total intrinsic value of options exercised for the years ended December 31, 2018, 2019 and 2020 was RMB474 million, RMB77 million and RMB157 million, respectively. The total fair value of options

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

22. SHARE-BASED AWARDS PLAN—continued

Baidu, Inc.—continued

Incentive share options—continued

vested during the years ended December 31, 2018, 2019 and 2020 was RMB956 million, RMB216 million and RMB261 million, respectively.

Share options are usually subject to vesting schedules ranging from two to four years. As of December 31, 2020, RMB215 million of unrecognized share-based compensation cost related to share options is expected to be recognized over a weighted-average vesting period of 1.8 years. To the extent the actual forfeiture rate is different from the original estimate, actual share-based compensation costs related to these awards may be different from expectation.

The fair value of each option award was estimated on the date of grant using the Black-Scholes-Merton valuation model. The volatility assumption was estimated based on historical volatility of the Company's share price applying the guidance provided by ASC 718. Assumptions of the expected term were based on the vesting and contractual terms and employee demographics. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

The following table presents the assumptions used to estimate the fair values of the share options granted in the years presented:

	For the years ended December 31,		
	2018	2019	2020
Risk-free interest rate	2.57%	1.58%~2.49%	1.51~1.52%
Dividend yield	—	—	—
Expected volatility range	34.47%~35.36%	34.62%~35.14%	34.83%~34.92%
Expected life (in years)	4.89~6.25	5.83~6.03	5.90~6.01

In addition, the Company recognizes share-based compensation expense net of estimated forfeiture rates, to recognize compensation cost for shares expected to vest over the service period of the award. Estimated forfeiture rates are primarily based on historical experience of employee turnover. To the extent the Company revises this estimate in the future, share-based compensation expense could be materially impacted in the year of revision, as well as in the following years.

The exercise price of options granted during the years ended December 31, 2018, 2019 and 2020 equaled the market price of the ordinary shares on the grant date. The weighted-average grant-date fair value of options granted during the years ended December 31, 2018, 2019, and 2020 was US$13, US$5, and US$9, respectively.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

22. SHARE-BASED AWARDS PLAN—continued

Baidu, Inc.—continued

Restricted Shares

Restricted Shares activity for the years ended December 31, 2018, 2019, and 2020 was as follow:

	Number of restricted shares *(Note)*	Weighted average grant date fair value (US$) *(Note)*
Restricted Shares		
Unvested, December 31, 2017	65,573,600	24
Granted	34,211,360	28
Vested	(20,732,160)	24
Forfeited/Cancelled	(15,737,280)	24
Unvested, December 31, 2018	63,315,520	26
Granted	89,828,560	16
Vested	(24,049,120)	25
Forfeited/Cancelled	(15,490,640)	23
Unvested, December 31, 2019	113,604,320	19
Granted	73,900,080	14
Vested	(35,078,640)	20
Forfeited/Cancelled	(21,924,240)	17
Unvested, December 31, 2020	130,501,520	16

Note: The number of restricted shares and weighted average grant date fair value have been retrospectively adjusted for the Share Subdivision that became effective on March 1, 2021 as detailed in Note 2.(a) and Note 21.

The total fair value of the Restricted Shares vested during the years ended December 31, 2018, 2019 and 2020 was RMB3.4 billion, RMB4.1 billion, RMB4.6 billion, respectively. The weighted-average grant-date fair value of the Restricted Shares granted during the years ended December 31, 2018, 2019, and 2020 was US$28, US$16, and US$14, respectively.

As of December 31, 2020, there was RMB6.4 billion of unrecognized share-based compensation cost related to Restricted Shares, which is expected to be recognized over a weighted-average vesting period of 3.0 years. To the extent the actual forfeiture rate is different from the original estimate, the actual share-based compensation costs related to these awards may be different from expectation. To the extent the Company revises this estimate in the future, share-based compensation expense could be materially impacted in the year of revision, as well as in the following years.

Subsidiaries-iQIYI

2010 Equity Incentive Plan

In October 2010, iQIYI adopted its 2010 Equity Incentive Plan (the "iQIYI 2010 Plan"), which permits the grant of restricted shares, options and share appreciation rights to the employees, directors, officers and consultants to purchase iQIYI's ordinary shares. The 2010 Plan is valid and effective for an original term of ten years, and further extended to twenty years on September 15, 2020 commencing from its adoption. Except for service conditions, there were no other vesting conditions for all the awards under the 2010 Plan. As of December 31, 2020, the share option pool under the iQIYI 2010

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

22. SHARE-BASED AWARDS PLAN—continued

Subsidiaries-iQIYI—continued

2010 Equity Incentive Plan—continued

Plan approved by the Board of Directors of iQIYI was 589,729,714 iQIYI's ordinary shares. All options granted vest over a four-year period, with 25% of the awards vesting on the first anniversary, and the remaining 75% of the awards vesting on a quarterly basis thereafter.
The following table sets forth the summary of employee option activity under the iQIYI's 2010 Plan:

	Number of share options	Weighted average exercise price (US$)	Weighted average remaining contractual life (Years)	Aggregate intrinsic value (US$ in millions)
Outstanding, December 31, 2017	306,266,366	0.45		
Granted	112,846,527	0.51		
Forfeited	(13,474,664)	0.51		
Exercised	(25,059,198)	0.42		
Outstanding, December 31, 2018	380,579,031	0.47	9	630
Vested and expected to vest at December 31, 2018	382,422,243	0.46	7	635
Exercisable at December 31, 2018	184,247,256	0.42	6	314
Outstanding, December 31, 2018	380,579,031	0.47	9	630
Granted	94,625,573	0.51		
Forfeited	(8,855,266)	0.51		
Exercised	(59,436,720)	0.37		
Outstanding, December 31, 2019	406,912,618	0.48	7	1,031
Vested and expected to vest at December 31, 2019	385,280,004	0.48	7	977
Exercisable at December 31, 2019	211,537,760	0.45	6	542
Outstanding, December 31, 2019	406,912,618	0.48	7	1,031
Granted	88,611,584	0.51		
Forfeited	(12,111,374)	0.51		
Exercised	(62,714,554)	0.44		
Outstanding, December 31, 2020	420,698,274	0.49	7	846
Vested and expected to vest at December 31, 2020	401,055,919	0.48	7	807
Exercisable at December 31, 2020	245,054,484	0.47	7	498

As of December 31, 2020, there was RMB2.2 billion of unrecognized share-based compensation cost related to share options granted by iQIYI. That deferred cost is expected to be recognized over a weighted-average vesting period of 2.7 years.

2017 Share Incentive Plan

In November 2017, iQIYI adopted its 2017 Share Incentive Plan (the "iQIYI 2017 Plan"). Under the iQIYI 2017 Plan, iQIYI is authorized to grant options, restricted shares and restricted share units to members of the board, employees, consultants and other individuals for which the maximum aggregate number of ordinary shares which may be issued pursuant to all awards is 720,000 iQIYI's ordinary

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

22. SHARE-BASED AWARDS PLAN—continued

Subsidiaries-iQIYI—continued

2017 Share Incentive Plan—continued

shares. The iQIYI 2017 Plan is valid and effective for a term of ten years commencing from its adoption. Except for service conditions, there are no other vesting conditions for all the awards issued under the 2017 Plan. As of December 31, 2020, the unrecognized share-based compensation cost related to its Restricted Shares is insignificant.

The following table summarizes the share-based compensation cost recognized by iQIYI:

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Expensed as cost of revenues	83	171	202
Expensed as selling, general and administrative	369	676	851
Expensed as research and development	104	238	317
	556	1,085	1,370

The following table summarizes the total share-based compensation cost recognized by the Group:

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Expensed as cost of revenues	224	327	360
Expensed as selling, general and administrative	1,725	1,768	1,897
Expensed as research and development	2,727	3,531	4,471
	4,676	5,626	6,728

23. RELATED PARTY TRANSACTIONS

Related party transactions primarily related to online marketing services, cloud services and other services provided by the Company to certain investees. The following table summarizes the revenue received from major related parties in fiscal year 2018, 2019 and 2020.

	For the years ended December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Revenues:			
Trip	774	627	204
Du Xiaoman	256	731	678
Investee C[(i)]	143	280	949
Others	421	1,394	1,015
Total	**1,594**	**3,032**	**2,846**

Note:

(i) Investee C is one of the Company' investees, over which the Company has significant influence.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

23. RELATED PARTY TRANSACTIONS—continued

The Group purchased produced content and licensed copyrights, traffic acquisition and other services from equity investees in an amount of RMB297 million, RMB3.0 billion and RMB1.9 billion for the years ended December 31, 2018, 2019 and 2020, respectively. Other related party transactions were insignificant for each of the years presented, which included reimbursements to Robin Li's use of an aircraft beneficially owned by his family member used for the Company's business purposes.

Except for the non-trade balances disclosed below, amounts due from/due to related parties as of December 31, 2018, 2019 and 2020 relate to transactions arising from the ordinary and usual course of business of the Group and were trade in nature.

	As of December 31,		
	2018	2019	2020
	RMB	RMB (In millions)	RMB
Amounts due from related parties, current:			
Trip(i)	58	96	22
Du Xiaoman(ii)	77	737	306
Investee A(iii)	325	345	—
Investee C(iv)	—	115	212
Other related parties(v)	325	301	186
Total	785	1,594	726
Amounts due from related parties, non-current:			
Du Xiaoman(ii)	3,884	3,391	3,398
Other related parties(vi)	413	173	40
Total	4,297	3,564	3,438
Amounts due to related parties, current:			
Trip(vii)	12	49	50
Du Xiaoman(viii)	934	973	489
Investee A(ix)	488	476	—
Investee B(x)	186	249	175
Other related parties(xi)	107	484	610
Total	1,727	2,231	1,324
Amounts due to related parties, non-current:			
Du Xiaoman(xii)	3,729	3,430	3,216
Investee B(x)	631	410	325
Other related parties(xiii)	—	6	2
Total	4,360	3,846	3,543

Notes:

(i) The balances mainly represent amounts arising from services the Company provided to Trip.

(ii) The balances represent non-trade long-term loans due from Du Xiaoman with interest rates ranging from 0.00% to 0.50% in 2020, and amounts arising from services the Company provided to Du Xiaoman.

(iii) The balance mainly represents a non-trade interest-bearing loan provided to Investee A, which was an equity investee as of December 31, 2019. The Company acquired Investee A on July 16, 2020, and accordingly, all corresponding outstanding balance has been eliminated in the consolidated balance sheet.

(iv) The balances mainly represent amounts arising from services including online marketing services and cloud services the Company provided to Investee C.

(v) The balances mainly represent amounts arising from services the Company provided to its investees in ordinary course of business.

(vi) The balance consists of amount due from the Company's investees in the ordinary course of business.

(vii) The balances mainly represent amounts arising from services provided by Trip.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

23. RELATED PARTY TRANSACTIONS—continued

(viii) The balance represents amount due to Du Xiaoman arising from services provided by Du Xiaoman to the Company in the ordinary course of business and non-trade loans provided by Du Xiaoman with interest rates of nil in 2020.

(ix) The balances mainly represent amounts arising from hardware products purchased from Investee A, and a non-trade interest-bearing loan provided by the Investee A, as of December 31, 2019. The Company acquired Investee A on July 16, 2020, and accordingly, all corresponding outstanding balances have been eliminated in the consolidated balance sheet.

(x) The balances mainly represent deferred revenue relating to the future services to be provided by the Company to Investee B which is an equity method investee.

(xi) The balances mainly represent amounts arising from services including advertising services and licensing of content assets provided by the Company's investees and non-trade amounts payable for acquiring the equity interest of the Company's investees.

(xii) The balances mainly represent non-trade interest-free long-term loans provided by Du Xiaoman.

(xiii) The balance represents mainly deferred revenue relating to the future services to be provided by the Company to investees.

24. SEGMENT REPORTING

The Company's operations are organized into two segments, consisting of Baidu Core and iQIYI. Within Baidu Core, the Company's product and services offerings are categorized as follows—Mobile Ecosystem, Baidu Cloud and Apollo Intelligent Driving & Other Growth Initiatives. iQIYI is an innovative market-leading online entertainment service iQIYI produces, aggregates, and distributes a wide variety of professionally produced content (PPC), as well as a broad spectrum of other video content in a variety of formats.

The Company derives the results of the segments directly from its internal management reporting system. The CODM reviews the performance of each segment based on its operating results and uses these results to evaluate the performance of, and to allocate resources to, each of the segments. Because substantially all of the Group's long-lived assets and revenues are located in and derived from the PRC, geographical segments are not presented. The Company does not allocate assets to its segments as the CODM does not evaluate the performance of segments using asset information.

The table below provides a summary of the Group's operating segment operating results for the year ended December 31, 2018.

	For the year ended December 31, 2018			
	Baidu Core	iQIYI	Intersegment eliminations & adjustments	Consolidated
	RMB	RMB	RMB (In millions)	RMB
Total revenues	**78,271**	**24,989**	**(983)**	**102,277**
Operating costs and expenses:				
Cost of revenues	25,370	27,133	(759)	51,744
Selling, general and administrative	15,310	4,168	(247)	19,231
Research and development	13,783	1,994	(5)	15,772
Total operating costs and expenses	**54,463**	**33,295**	**(1,011)**	**86,747**
Operating profit (loss)	**23,808**	**(8,306)**	**28**	**15,530**
Total other income (loss), net	**13,169**	**(676)**	**(698)**	**11,795**
Income (loss) before income taxes	**36,977**	**(8,982)**	**(670)**	**27,325**
Income taxes	4,664	79	—	4,743
Net income (loss)	**32,313**	**(9,061)**	**(670)**	**22,582**
Less: net income (loss) attributable to noncontrolling interests	(1,292)	49	(3,748)	(4,991)
Net income (loss) attributable to Baidu, Inc.	**33,605**	**(9,110)**	**3,078**	**27,573**

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

24. SEGMENT REPORTING—continued

The table below provides a summary of the Group's operating segment operating results for the year ended December 31, 2019.

	For the year ended December 31, 2019			
	Baidu Core	iQIYI	Intersegment eliminations	Consolidated
	RMB	RMB	RMB (In millions)	RMB
Total revenues	**79,711**	**28,994**	**(1,292)**	**107,413**
Operating costs and expenses:				
Cost of revenues	34,019	30,348	(1,517)	62,850
Selling, general and administrative	14,733	5,237	(60)	19,910
Research and development	15,698	2,667	(19)	18,346
Total operating costs and expenses	**64,450**	**38,252**	**(1,596)**	**101,106**
Operating profit (loss)	**15,261**	**(9,258)**	**304**	**6,307**
Total other income (loss), net	**(5,680)**	**(967)**	**—**	**(6,647)**
Income (loss) before income taxes	**9,581**	**(10,225)**	**304**	**(340)**
Income taxes	1,896	52	—	1,948
Net income (loss)	**7,685**	**(10,277)**	**304**	**(2,288)**
Less: net income (loss) attributable to noncontrolling interests	105	46	(4,496)	(4,345)
Net income (loss) attributable to Baidu, Inc.	**7,580**	**(10,323)**	**4,800**	**2,057**

The table below provides a summary of the Group's operating segment operating results for the year ended December 31, 2020.

	For the year ended December 31, 2020			
	Baidu Core	iQIYI	Intersegment eliminations	Consolidated
	RMB	RMB	RMB (In millions)	RMB
Total revenues	**78,684**	**29,707**	**(1,317)**	**107,074**
Operating costs and expenses:				
Cost of revenues	28,368	27,884	(1,094)	55,158
Selling, general and administrative	12,931	5,188	(56)	18,063
Research and development	16,847	2,676	(10)	19,513
Total operating costs and expenses	**58,146**	**35,748**	**(1,160)**	**92,734**
Operating profit (loss)	**20,538**	**(6,041)**	**(157)**	**14,340**
Total other income (loss), net	**9,693**	**(943)**	**—**	**8,750**
Income (loss) before income taxes	**30,231**	**(6,984)**	**(157)**	**23,090**
Income taxes	4,041	23	—	4,064
Net income (loss)	**26,190**	**(7,007)**	**(157)**	**19,026**
Less: net income (loss) attributable to noncontrolling interests	(334)	31	(3,143)	(3,446)
Net income (loss) attributable to Baidu, Inc.	**26,524**	**(7,038)**	**2,986**	**22,472**

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

24. SEGMENT REPORTING—continued

The following table presents the Company's revenues disaggregated by segment and by types of products or services:

	For the years ended		
	December 31, 2018	December 31, 2019	December 31, 2020
	RMB	RMB (In millions)	RMB
Online marketing services	72,645	70,038	66,283
Cloud services (*Note 1)*	3,005	6,370	9,173
Interest income earned from provision of financial services	1,724	—	—
Others (*Note 1)*	897	3,303	3,228
Baidu Core subtotal	78,271	79,711	78,684
Membership services (*Note 1)*	10,623	14,436	16,491
Online advertising services (*Note 2)*	9,329	8,271	6,822
Content distribution (*Note 1)*	2,163	2,544	2,660
Others (*Note 1)*	2,874	3,743	3,734
iQIYI subtotal	24,989	28,994	29,707
Intersegment eliminations	(983)	(1,292)	(1,317)
Total revenues	102,277	107,413	107,074

Note 1: The revenues were presented as "Others" in the consolidated statements of comprehensive income (loss)
Note 2: The revenues were presented as "Online marketing revenues" in the consolidated statements of comprehensive income (loss)

25. FAIR VALUE MEASUREMENTS

ASC 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value as follows:

Level 1 – Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 – Include observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets, quoted prices for identical or similar assets and liabilities in markets that are not active, or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Unobservable inputs which are supported by little or no market activity.

ASC 820 describes three main approaches to measuring the fair value of assets and liabilities: (1) market approach; (2) income approach and (3) cost approach. The market approach uses prices and other relevant information generated from market transactions involving identical or comparable assets or liabilities. The income approach uses valuation techniques to convert future amounts to a single present value amount. The measurement is based on the value indicated by current market expectations about those future amounts. The cost approach is based on the amount that would currently be required to replace an asset.

Assets and Liabilities Measured or Disclosed at Fair Value on a recurring basis

In accordance with ASC 820, the Company measures equity investments with readily determinable fair value, investments accounted for at fair value, available-for-sale debt investments and derivatives

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

25. FAIR VALUE MEASUREMENTS—continued

Assets and Liabilities Measured or Disclosed at Fair Value on a recurring basis—continued

instruments at fair value on a recurring basis. The fair value of time deposits are determined based on the prevailing interest rates in the market. The fair values of the Company's held-to-maturity debt investments as disclosed are determined based on the discounted cash flow model using the discount curve of market interest rates. The fair value of the Company's short-term available-for-sale debt investments are measured using the income approach, based on quoted market interest rates of a similar instrument and other significant inputs derived from or corroborated by observable market data. The fair values of the Company's investments in equity securities of publicly listed companies are measured using quoted market prices. The fair value of derivative instruments of interest rate swaps are based on broker quotes. The fair value of financial liability is estimated based on the quoted market price of a similar asset to the underlying assets. Investments accounted for at fair value are equity investments in unlisted companies held by consolidated investment companies, these investments and long-term available-for-sale debt investments do not have readily determinable market value, which were categorized as Level 3 in the fair value hierarchy. The Company uses a combination of valuation methodologies, including market and income approaches based on the Company's best estimate, which is determined by using information including but not limited to the pricing of recent rounds of financing of the investees, future cash flow forecasts, liquidity factors and multiples of a selection of comparable companies.

The fair value of the Company's notes payable are extracted directly from their quoted market prices. The fair value of the convertible senior notes are based on broker quotes. The Company carries the convertible senior notes at face value less unamortized debt discount and issuance costs on its consolidated balance sheets and presents the fair value for disclosure purposes only.

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

25. FAIR VALUE MEASUREMENTS—continued

Assets and Liabilities Measured or Disclosed at Fair Value on a recurring basis—continued

Assets and liabilities measured on a recurring basis or disclosed at fair value are summarized below:

		Fair value measurement or disclosure at December 31, 2018 using		
	Total fair value at December 31, 2018	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB	RMB (In millions)	RMB	RMB
Fair value disclosure				
Cash equivalents				
Time deposits	4,264		4,264	
Money market funds	3,723	3,723		
Short-term investments				
Held-to-maturity debt investments	27,507		27,507	
Long-term notes payable	68,763		68,763	
Convertible senior notes	4,923		4,923	
Fair value measurements on a recurring basis				
Short-term investments				
Available-for-sale debt investments	84,238		84,238	
Long-term investments				
Equity investments at fair value with readily determinable fair value	4,428	4,428		
Investments accounted for at fair value	1,457			1,457
Available-for-sale debt investments	1,167			1,167
Other non-current assets				
Derivative instruments	193		187	6
Total assets measured at fair value	**86,803**	**4,428**	**79,745**	**2,630**
Accounts payable and accrued liabilities				
Derivative instruments	123			123
Amounts due to related parties, non-current				
Financial liability	341		341	
Total liabilities measured at fair value	**464**	**—**	**341**	**123**

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

25. FAIR VALUE MEASUREMENTS—continued

Assets and Liabilities Measured or Disclosed at Fair Value on a recurring basis—continued

		Fair value measurement or disclosure at December 31, 2019 using		
	Total fair value at December 31, 2019	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB	RMB (In millions)	RMB	RMB
Fair value disclosure				
Cash equivalents:				
Time deposits	10,848		10,848	
Money market funds	1,719	1,719		
Short-term investments:				
Held-to-maturity debt investments	107,654		107,654	
Long-term investments:				
Held-to-maturity debt investment	491		491	
Long-term notes payable	45,282		45,282	
Convertible senior notes	14,142		14,142	
Fair value measurements on a recurring basis				
Short-term investments:				
Available-for-sale debt investments	5,637		5,637	
Long-term investments:				
Equity investments at fair value with readily determinable fair value	11,334	11,334		
Investments accounted for at fair value	1,819			1,819
Available-for-sale debt investments	3,970			3,970
Other non-current assets:				
Derivative instruments	24		24	
Total assets measured at fair value	**22,784**	**11,334**	**5,661**	**5,789**
Accounts payable and accrued liabilities:				
Derivative instruments	125			125
Amounts due to related parties, non–current:				
Financial liability	401		401	
Total liabilities measured at fair value	**526**	**—**	**401**	**125**

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

25. FAIR VALUE MEASUREMENTS—continued

Assets and Liabilities Measured or Disclosed at Fair Value on a recurring basis—continued

		Fair value measurement or disclosure at December 31, 2020 using		
	Total fair value at December 31, 2020	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	RMB	RMB	RMB	RMB
		(In millions)		
Fair value disclosure				
Cash equivalents:				
Time deposits	16,133		16,133	
Money market funds	198	198		
Short-term investments:				
Held-to-maturity debt investments	124,132		124,132	
Convertible senior notes, current portion	4,967		4,967	
Long-term investments:				
Held-to-maturity debt investment	9,754		9,754	
Long-term notes payable	52,575		52,575	
Convertible senior notes, non-current portion	12,078		12,078	
Fair value measurements on a recurring basis				
Short-term investments:				
Available-for-sale debt investments	2,865		2,865	
Long-term investments:				
Equity investments at fair value with readily determinable fair value	12,978	12,978		
Investments accounted for at fair value	2,238			2,238
Available-for-sale debt investments	2,607			2,607
Total assets measured at fair value	**20,688**	**12,978**	**2,865**	**4,845**
Accounts payable and accrued liabilities:				
Derivative instruments	40		40	
Amounts due to related parties, current:				
Financial liability	327		327	
Total liabilities measured at fair value	**367**	**—**	**367**	

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

25. FAIR VALUE MEASUREMENTS—continued

Assets and Liabilities Measured or Disclosed at Fair Value on a recurring basis—continued

Reconciliations of assets categorized within Level 3 under the fair value hierarchy are as follow:

Investments accounted for at fair value:

	Amounts
	RMB (In millions)
Balance at December 31, 2017	**321**
Additions	822
Disposals	(5)
Net unrealized fair value increase recognized in earning	293
Foreign currency translation adjustments	26
Balance at December 31, 2018	**1,457**
Additions	282
Disposals	(128)
Net unrealized fair value increase recognized in earnings	197
Foreign currency translation adjustments	11
Balance at December 31, 2019	**1,819**
Additions	371
Disposals	(63)
Net unrealized fair value increase recognized in earnings	151
Foreign currency translation adjustments	(40)
Balance at December 31, 2020	**2,238**

Available-for-sale debt investments:

	Amounts
	RMB (In millions)
Balance at December 31, 2017	**—**
Additions	1,167
Balance at December 31, 2018	**1,167**
Additions	2,785
Disposals	(20)
Net unrealized fair value increase recognized in other comprehensive income	91
Accrued interest	48
Impairment	(81)
Foreign currency translation adjustments	(20)
Balance at December 31, 2019	**3,970**
Additions	5
Disposals	(500)
Reclassification	412
Conversion to equity investment	(1,355)
Share of losses in excess of equity method investment in ordinary shares	(82)
Net unrealized fair value increase recognized in other comprehensive income	153
Accrued interest	68
Foreign currency translation adjustments	(64)
Balance at December 31, 2020	**2,607**

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

25. FAIR VALUE MEASUREMENTS—continued

Assets measured at fair value on a non-recurring basis

The Company measures certain non-financial assets on a nonrecurring basis

For equity securities accounted for under the measurement alternative, when there are observable price changes in orderly transactions for identical or similar investments of the same issuer, the investments are re-measured to fair value (Note 4). The non-recurring fair value measurements to the carrying amount of an investment usually requires management to estimate a price adjustment for the different rights and obligations between a similar instrument of the same issuer with an observable price change in an orderly transaction and the investment held by the Company. These non-recurring fair value measurements were measured as of the observable transaction dates. The valuation methodologies involved require management to use the observable transaction price at the transaction date and other unobservable inputs (level 3) such as expected volatility and probability of exit events as it relates to liquidation and redemption preferences. When there is impairment of equity securities accounted for under the measurement alternative and equity method investments, the non-recurring fair value measurements are measured at the date of impairment. The fair values of the Company's equity method investments in publicly listed companies are measured using quoted market prices. Estimating the fair value of investees without observable market prices is highly judgmental due to the subjectivity of the unobservable inputs (level 3) used in the valuation methodologies used to determine fair value, especially considering the increased market volatility in the global financial markets after the COVID-19 outbreak. The Company uses valuation methodologies, primarily the market approach, which requires management to use unobservable inputs (level 3) such as selection of comparable companies and multiples, expected volatility, discount for lack of marketability and probability of exit events as it relates to liquidation and redemption preferences when applicable. These unobservable inputs and resulting fair value estimates may be affected by unexpected changes in future market or economic conditions. The fair value information presented is not as of the period's end, and is sensitive to changes in the unobservable inputs used to determine fair value and such changes could result in the fair value at the reporting date to be different from the fair value presented.

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

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

25. FAIR VALUE MEASUREMENTS—continued

Assets measured at fair value on a non-recurring basis—continued

The following table summarizes the Company's financial assets held as of December 31, 2018, 2019 and 2020 for which a non-recurring fair value measurement was recorded during the years ended December 31, 2018, 2019 and 2020:

	Total Balance	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Fair value adjustment	Impairment
	RMB	RMB	RMB	RMB	RMB	RMB
			(In millions)			
Fair value measurements on a non-recurring basis						
As of December 31, 2018						
Long-term investments	19,739	—	4,983	14,756	3,512	(622)
Intangible assets	—	—	—	—	—	(5)
As of December 31, 2019						
Long-term investments	22,778	14,105	358	8,315	(230)	(9,989)
Intangible assets	76	—	—	76	—	(406)
As of December 31, 2020						
Long-term investments (i)	14,205	367	—	13,838	3,725	(1,862)
Intangible assets (i)	62	—	—	62	—	(350)
Mainland China film group–Licensed copyrights as of March 31, 2020 (ii)	7,186	—	—	7,186	—	(390)
Mainland China film group – Produced contents as of March 31, 2020 (ii)	4,124	—	—	4,124	—	(210)
Produced content monetized on its own (ii)	40	—	—	40	—	(205)

Notes:

(i) Due to factors such as the outbreak of coronavirus (COVID-19) resulting in declined financial performances and changes in business circumstances of certain investees, the Company recognized impairment charges of long-term investments as of March 31, 2020, June 30, 2020 and December 31, 2020. For equity securities accounted for under the measurement alternative, when there are observable price changes in orderly transactions for identical or similar investments of the same issuer, the investments are re-measured to fair value. The Company also recognized impairment loss on intangible assets as of March 31, 2020.

(ii) The outbreak of COVID-19 during the first quarter of 2020 also has resulted in a downward adjustment to forecasted advertising revenues for the Mainland China film group. As a result, the Company performed an assessment to determine whether the fair value of the Mainland China film group was less than its unamortized film costs as of March 31, 2020 with the assistance of a third-party valuation firm. The Company uses a discounted cash flow approach to estimate the fair value. The Company estimated the most likely future cash flows based on historical results, economic useful lives or license periods and perception of future performance. The Company has incorporated those cash outflows necessary to generate the cash inflows, including future production, operation, exploitation and administrative costs, which were estimated at 32%-37% of revenue in aggregate. The discount rate was determined to be the weighted average cost of capital of the Mainland China film group at 15%. As of March 31, 2020, the fair value of the Mainland China film group was less than its corresponding carrying value and resulted in the Company recognizing an impairment charge of RMB390 million related to licensed copyrights and RMB210 million related to produced content, respectively. The impairment charge was recognized as cost of revenues in the condensed consolidated statement of comprehensive income for the year ended December 31, 2020. In addition, due to adverse changes in the expected performance of certain produced content and the reduced amount of ultimate revenue expected to be recognized, an impairment charge of RMB205 million was recognized for produced content predominantly monetized on its own and was recognized as "Cost of revenues" in the consolidated statement of comprehensive income for the year ended December 31, 2020.

26. SUBSEQUENT EVENTS

Acquisition of YY Live

In November 2020, the Company entered into definitive agreements with JOYY Inc. ("JOYY"), subsequently amended in February 2021, to acquire JOYY's domestic video-based entertainment live streaming business in China ("YY Live") for total cash consideration of US$3.3 billion (equivalent to

II NOTES TO HISTORICAL FINANCIAL INFORMATION—continued

26. SUBSEQUENT EVENTS—continued

Acquisition of YY Live—continued

approximately RMB21,532 million), subject to certain adjustments, as well as contingent cash consideration of up to US$300 million (equivalent to approximately RMB2.0 billion) if certain conditions are met post-acquisition. The acquisition has been substantially completed, with certain customary matters remaining to be completed in the near future.

The transaction will be accounted for as a business combination. The initial accounting for the business combination is incomplete as the Company is still in the process of measuring the fair value of the consideration transferred, identifiable intangible assets and other assets and liabilities to be recognized upon acquisition, including deferred tax liabilities. Based on information available at this time, the Company determined a preliminary purchase price allocation based on the following provisional amounts: total consideration transferred of RMB22.1 billion which is mainly allocated to intangible assets of RMB6.8 billion, deferred tax liabilities of RMB1.0 billion, and resulting provisional goodwill of RMB16.2 billion, respectively.

iQIYI 2026 Notes and follow-on public offering of ADSs

In connection with the issuance of the iQIYI 2026 Convertible Notes on December 21, 2020, an additional US$100 million of principal amount was issued on January 8, 2021 pursuant to the underwriters' exercise of their option to purchase additional notes. The net proceeds received by iQIYI for this additional issuance was US$98 million (equivalent to RMB641 million) .

In connection with iQIYI's follow-on offering on December 21, 2020, the underwriters had partially exercised their option to purchase additional ADSs of iQIYI. The net proceeds received by iQIYI for this issuance of additional Class A ordinary shares was US$78 million (equivalent to RMB510 million).

Unsecured US$ floating rate term loan and revolving loan of the Company

In February 2021, the Company entered into a non-binding term sheet for a term and revolving facility with a group of five mandated lead arrangers, bookrunners and underwriters, pursuant to which the Company plans to borrow an unsecured US$ denominated floating rate term loan of US$1.5 billion with a term of 5 years and to borrow an unsecured US$ denominated revolving loan of US$1.5 billion for 5 years. The facility is intended for the Company's general working capital use.

27. DIVIDENDS

No dividends have been paid or declared by the Company during the years ended December 31, 2018, 2019 and 2020.

III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company, in respect of any period subsequent to December 31, 2020. Except as disclosed elsewhere in this report, no dividends or distributions have been declared or made by the Company in respect of any period subsequent to December 31, 2020.